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# STATE SOCIALISM IN PRACTICE

By ARCHIBALD HURD



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## PREFACE

THE advocates of Socialism in this country have always been treated with generous, indeed quixotic, tolerance. This sentiment found expression at the opening of the year 1924, when the first Socialistic Government which has ever existed in this country was permitted to assume office under Mr. Ramsay MacDonald, though it had no majority in the House of Commons. On all sides the cry was raised that the Government must have 'fair play,' in spite of the fact that two out of every three electors had recently declared decisively against their policy.

In the months preceding the General Election of December 1923 the leaders of the party had declared themselves in favour of 'a bold Socialistic policy'—the setting up of a Socialistic State. They had argued in favour of a capital levy, in face of the solemn warnings of the most competent financiers, and of the experience of Switzerland and other countries; they had advocated the nationalisation of the means of production and distribution—including land, mines, railways, shipping and banks. This comprehensive scheme of State Socialism was the subject of a formal motion which Mr. Philip Snowden submitted to the House of Commons on March 20, 1923, receiving the support of the rank and file of the Socialists. The party had already specifically declared, in the words of

Mr. Arthur Henderson, 'war on capitalism,' suggesting that no evolutionary procedure for the amelioration of the lot of the less fortunate or less industrious or less skilful members of the community would satisfy it. It demanded nothing less than an economic revolution. The Red Flag had been adopted as its emblem—the same flag as had been flaunted in Russia, with such disastrous results to life and property, as well as to the happiness of tens of millions of men, women and children.

At the General Election of 1923, though the overwhelming majority of the electors belonged to what is described as 'the working class,' this 'bold Socialistic programme' was rejected. But, nevertheless, when, owing to circumstances without precedent in our political history, Mr. Ramsay MacDonald was invited to form an administration which could count on no majority in either House of Parliament, the Opposition settled down to watch the course of events, extending to the administrative actions and legislative measures of the Socialists a measure of fair play which was without parallel in history.

For ten months the Government enjoyed all the privileges of office, as well, of course, as its burdens. In the meantime, every opportunity was taken to use the prestige which by singular good fortune had been conferred on the Socialists for pressing an insidious campaign throughout the country in favour of their peculiar Socialistic theories. Mr. Ramsay MacDonald and his colleagues, as well as their supporters in the constituencies, were permitted to conduct an offensive war against every form of capitalistic enterprise.

They proclaimed, with characteristic effrontery, that capitalism was on the defensive, knowing, though they profess to hate war and all its methods, that the defensive is the strategical position of weakness. They arraigned capitalism in every shape and form, claiming that practically every social ill was due to this system.

These tactics must not any longer be tolerated. The time has come when it should be declared that it is not Capitalism, but Socialism, which is on the defensive. Its advocates must be called upon to explain the failures of Socialism wherever it has been tried, lest they bring to ruin this country, with its delicately-poised economic system. For there is no country in the world so unfitted for hazardous economic experiments as this.

From one-half to two-thirds of our people are only able to maintain life from day to day because from all the ends of the earth the food that we do not grow ourselves is poured into our ports, together with vast quantities of raw materials for our factories. About one-third—some statisticians put the proportion higher—of our entire industrial product is sent abroad in settlement of this bill for food and raw materials, competing in price and quality with the goods of other countries, many of them with a far lower standard of living, longer hours and smaller wages. At least fifteen million people in this country are directly or indirectly engaged in supplying goods to capitalistic markets overseas, or rendering various services—shipping, banking, or insurance, which enable us to balance our trading account from year to year.\*

\* Cf. Appendix II.

It is suggested by the Socialists that in a world organised in accordance with the capitalistic system, we, who must sell or starve, should set an example of folly without precedent in history by establishing a Socialistic State, in face of the record of inefficiency and failure of Socialism wherever it has been adopted, thus imperilling our access to every market overseas, where trade goes to the most efficient producer. The purpose of this volume is to suggest that it is not Capitalism, but State Socialism, which is on its trial.

The success of Capitalism must be patent to all students of our history. Its triumph politically was registered when Mr. Ramsay MacDonald's Cabinet, consisting in the main of men who had risen from the humblest origins, was formed. This is the land of opportunity, more so than any other, not even excluding the United States. Its triumph economically is attested by the life-stories of no mean proportion of the leaders of the great industries of the country, who began life in cottage homes, or even tenements, without advantages of birth or wealth, and by the free play of their genius have developed new spheres of employment for millions of men and women. Its success socially is revealed in the condition of the people. Where else in the Old World are men and women and children to be found so well fed, so well clothed, and even so well housed? In what other country is free education provided, as well as free food for necessitous children, health insurance for all, hospital treatment without charge, payment when out of work on a generous scale, subsidised housing, free libraries and other benefits? They represent, in the

aggregate, many millions annually, and year by year Capitalism discharges the enormous bill.

In face of the achievements, political, economic and social, of the capitalistic system, which enables 44 million men, women and children to live in a country which a century ago supported only about one-fourth that number, is there any foundation for the suggestion that Socialism would prove a change for the better? Would men work more willingly for the State, which has no soul, than they do to promote the comfort and happiness of their families? Would the elimination of competition in industry and commerce, as well as in transport on land and sea, promote a higher standard of efficiency? Would the State, as the producer and distributor of goods for consumption in this country, and for sale in overseas markets, do better than private enterprise, whether the State acted through a bureaucratic system or delegated its authority to committees of manual workers without knowledge and experience of the making and sale of goods?

Those are questions which the advocates of Socialism must be called upon to answer. The stake is so great that the people of this over-crowded little island can afford to take no risks, for failure would mean the end of all things for them. As Viscount Inchcape, who began life in a humble shipping office in Arbroath, has reminded us, the position of this country is more precarious than that of any other. None draws its means of sustenance from such varied and distant sources as we do. None lives, to the extent that this island does, on what it exports. None has staked so much

on the ability of its manufacturers and its merchants to get ahead of all rivals in all quarters of the globe. No people, again, are anything like so dependent as we are on the smooth working of those processes of international trade, involving delicate operations of finance and insurance, by means of which, for instance, meat from New Zealand is paid for by the export of cotton goods to China.

The loss of its foreign trade by any nation would be a serious blow to its prosperity, but in our case it would be an irreparable disaster, for it is our chosen part to eat in this northern island what has been grown thousands of miles away, and to turn into finished products the raw material that has reached us from the other side of the world, settling the account with the manufactured goods and coal we send abroad, the shipping, banking, insurance and other services we render, and the capital we invest in lands where capital can be profitably employed, the capital being transferred in the shape of the produce of this country's industries. Could we make those payments, settling our accounts for food and raw materials month by month, under a system of State Socialism? That is the enquiry which must be answered in the affirmative beyond peradventure before the nation can agree to nationalise the means of production and distribution and exchange, as the Socialists suggest.

Whenever State Socialism is put on the defensive—the case against it being presented in knowledge of its trail of failures—the verdict is inevitably one of condemnation. It has brought suffering to Russia—untold suffering—but Russia may recover. To this country it would mean complete

and abject extinction—the eventual, if gradual, wiping out of tens of millions of men, women and children who can live only so long as we maintain our position as buyers and sellers in the capitalistic markets of the world.

It need hardly be added that the preparation of material on which this volume has been written has involved the co-operation of many authorities in various branches of trade, finance and commerce, and their help is most gratefully acknowledged.



# STATE SOCIALISM IN PRACTICE

## CHAPTER I

### THE SOCIALIST STATE

UNTIL recently it was not easy to form any clear conception of what a Socialist State would be like. None existed, in fact ; and those drawn in theory differed widely both in detail and in principle. Advocates of Socialism thus had the controversial advantage of being able to make their presentation of fancy—for it was no more—as attractive as they wished. There was practically no reality by which their theories could be tested.

To-day the position is different. Though evolutionary Socialists try to evade the impeachment, Bolshevik<sup>1</sup> Russia between 1919 and 1924 has shown the goal towards which their doctrines inevitably tend. It is true that they have an answer. Bolshevik Russia, they say, is not a fair case, in that the Socialisation of the State was

<sup>1</sup> Bolshevik means 'majority,' and in this connection the majority of the Socialists who at the London Congress in 1903 obtained control of the Central Council, excluding the Mensheviks ('minority'). The division arose from fundamental opposition between the democratic orientation of Plekhanov and the oligarchical spirit represented by Lenin. The struggle was not suggested by a deep cleavage of principle among the rank and file of the party, but by disputes among the intellectual leaders. (*Ency. Brit.*, vol. xxxii.).

brought about suddenly and by violent means, without adequate previous preparation, whereas we propose to work by a gradual process towards the absorption of capital and industry into the State. 'The nationalisation of the means of production and distribution' is the phrase of Mr. Snowden's motion in the House of Commons in March 1923. A groundwork, they explain, already exists in a good many countries—State railways, State post-offices and State telephones. There are various descriptions of Municipal services which may be regarded as Socialistic, and popularly elected bodies have, in certain parts of the world, become the owners of gas and electric light services. Socialist Governments, say these advocates of the evolutionary method, will do no more than carry on the absorption which has already begun, and quicken it up when opportunity offers.

This is obviously no real answer to the charge that Bolshevik Russia represents the goal towards which they are striving. The argument deals with method and not with principle ; but as it has been put forward, and indeed accepted, as a complete defence for the school of Socialism prevalent in England, it deserves a more detailed examination.

For this purpose an eminent exponent of Socialism, who was recently a Minister of State, has provided a certain amount of material. In a work entitled *Labour and the New World* Mr. Philip Snowden has described, in some detail, how State control of industry and capital can, according to his theory, be achieved gradually and by legislation. The State is to take over industry by stages, and supplant the shareholders. 'There is no real difference between

the debt owing by a joint stock company, and a debt which would be owing by the State on the bonds and shares it issued for the acquisition of a business concern. If the State acquired the mines, the great shipping lines,<sup>1</sup> or an industrial business like Coats, or the Lever Combine,<sup>2</sup> or the Shell Oil Company, there would be no increase of debt. The State would have assumed the position of the companies, and would have accepted their responsibility for the capital which had been subscribed by private individuals.'

Mr. Snowden is, of course, too able a reasoner to leave his argument there; it would be mere folly to reduce the Socialist State to a change of administration. He, therefore, suggests that the debt thus transferred from the joint stock company to the State shall, after a certain term of years, be allowed to lapse, the State getting the property for nothing. The community would be compensated, he suggests, for this act of gradual spoliation by the advantages of goods supplied free of the overhead charges due to rent and interest. A parallel process is to be carried on with regard to the land. 'There could be no injustice done to any living person,' he declares,

<sup>1</sup> Mr. Snowden is, like most Socialists, without practical knowledge of the intricacies of the shipping industry of this country, and apparently thinks in terms of liners, whereas our most essential supplies, as well as most of our exports, are carried in tramp ships, 'fixed' from port to port according to the market movements; and in addition to meeting our needs these tramps carry a large part of the cargoes of foreign countries, earning freights which are invisible exports, and help to balance our trading account. *Vide Chapter V., 'Shipping under the State.'*

<sup>2</sup> The profits of these businesses, as of many others, are earned in large measure, not in this country, but in foreign countries, but these firms employ a great body of British labour, and pay dividends on British capital. They are international in their sphere of operations, but as wage payers they are national.

' by an enactment which limited the private ownership of land, or other forms of property, to the lifetime of the living possessors, with moderate provision for their wives and families.'

If this proposal were either workable or sound, one could do nothing but denounce it as predatory. It is a poor estimate of justice to say that no living person would be injured when everybody who possessed anything, however little—the working-man with his modest savings invested in his home or shares, as well as the professional man with his hard-earned 'nest egg' and the business man who had been creating capital by the practice of thrift over a long period of years—would be unable to pass it on to his descendants. Living persons would be injured in a very sensible degree, for it is a gross misreading of our moral natures to suggest that a man would not lose his peace of mind and happiness if once he were deprived of his right to allow his descendants to profit by the wealth which he had himself inherited or amassed. To enjoy a comfortable income on such terms would appear little short of inhuman to any ordinary man or woman; and few would be selfish enough to live complacently on such terms.

Fortunately, Mr. Snowden's proposal is untenable for practical reasons. Capital may be raised by subscription or by enforced taxation. As capital wastes it has to be replenished—buildings have to be rebuilt, new machinery installed, and new inventions or processes tested, often with disastrous results financially. A stream of capital has to be assured to industry from year to year to make good the wastage, to provide for the development of existing industries,

and to support new industries as science opens up new possibilities. How would that capital be secured in such a Socialist State? It is impossible to suppose that voluntary capital would be forthcoming, particularly if the subscribers knew beforehand that they would not be repaid, and that the eventual aim was to abolish all private capital by a modified form of confiscation. Who would save money on such terms?

There remains the other method—taxation. But the taxation required to provide funds for conducting *all* the mines,<sup>1</sup> *all* the railways, and *all* the other industries of the country would be colossal; and the State and local authorities already make levies which absorb a half, or more than half, of many persons' incomes, besides placing a heavy burden on all forms of production. Further, onerous taxation could only be extorted from unwilling citizens by violence and tyranny, which means that the evolutionary and revolutionary methods would converge. The difference between the two is that the one starts with some inclination towards fair play—admittedly a slight one—and the other does not, as the history of Bolshevik Russia has proved.

If the practical workings of the evolutionary method be examined, the result is always the same. Arguing from analogies of State control exerted over concerns which enjoy a virtual monopoly, and are therefore freed from competition, home or foreign, the evolutionary Socialist concludes that all industrial concerns can be treated in the same way. He sets no limit to the process which would, naturally enough, be quickened up by the pressure of those

<sup>1</sup> The Socialists estimate the cost of the mines at £180,000,000.

who hope to profit by it, in various ways—not excluding well-paid offices. Nothing can come of this but taxation which, in the end, becomes revolutionary by the scale on which it is levied ; nor would those from whom it is whipped and wrung suffer in silence.

If it is realised that evolutionary Socialism merges into the revolutionary variant sooner or later, an important consequence follows. The advance and consequences of Socialism can be judged by analogy. We have copious histories describing what the process of revolution entails upon the population ; and we know, from having a contemporary example, what the Socialised State is like in the last analysis. It does not greatly matter to the population whether the purpose of a revolution is to place a Marat, Danton, Robespierre and St. Just at the head of an 'individualistic republic,' or whether the intention is that a handful of Russian energumens shall seize power in the name of the proletariat. The dislocation is the same ; the same types of men profit for a time by the disorder, and the same widespread desolation follows.

The history of great revolutions shows, dimly, that unless they are simply political upheavals they follow a certain sequence. They begin with wide economic distress, due to the machinery of supply and demand being interfered with ; they go on to a conflict between those who suffer and those who, in the opinion of the sufferers, are responsible for the suffering. The conflict solidifies itself in the temporary establishing of autocratic power on the part of the victors, with recourse to all kinds of expedients to maintain power—espionage, suppression of freedom

of the Press and of speech, mock trials, imprisonment and executions, and the compulsory enrolment of labour. Then follows a slow, gradual relapse to a normal order of things. From first to last the convulsion is accompanied by disease, famine and bloodshed. That is the record of history.

The evolutionary Socialist may deny it as he will ; his professed creed, if put into practice, must go through the same cycle. Let us imagine that a Socialist majority in Parliament slowly increases the burden of debts in the State, and impoverishes a wider and wider circle of persons by its grinding taxation—beginning with those who are regarded as 'capitalists' and large employers of labour in factory, workshop or office, professional men, and other classes of payers of income tax and super-tax. The process would first crush the middle and professional classes, the payers of the greater part of direct taxation which now supports the social services—old age pensions, education, poor relief, etc. They would slowly become absorbed in the suffering masses, and their industry of brain or hand would cease to be taxable. Under the spur of necessity the dispossessing process would soon have to be quickened in its action, and the cancer would spread to every branch of the body economic. The old distinctions of ordinary society would disappear. A new proletariat would be formed out of the educated classes, and enormously increased by those who, in the process of change, had not been able to adjust themselves to the changing order of things.

It has been assumed that this process is carried out by evolutionary Socialism, not because it is the only form that exists, but because it is the prevalent

doctrine in England. This means only that the ruin produced will be more or less gradual, as the evolution will be more or less gradual. The immediate consequences to each individual would therefore be an increasing sense of hard times, and of growing difficulties. The evil would probably not be attributed, at least at first, to its root cause ; there would simply be anxious talk among thousands of men who realised that their incomes were slowly declining. Only in a few exceptional cases would a man who had begun life as a doctor, or a shipping agent, or a clerk, or an engineer, end it in absolute poverty. It may be that the process of Socialisation would be spread over several generations, as its agents advocate, but the consequences would be the same, in the long run, as those of a sudden and violent revolution.

A further *caveat* must be entered. It must be remembered that no society ever remedies the evils from which it suffers by re-climbing the centuries. One must assume, therefore, that, if the Socialising process once established itself in legislation, it would not be reversed. It would have to run its cycle, however dire the consequences. It will at once be said that this picture of the sequence of economic evolution or revolution is over-lugubrious. It is, however, probable, if historical analogy proves anything.

Thus far only the preliminary process of Socialisation has been examined. It has been suggested that it is bound up with enormously increased taxation ; and the full effects of over-taxed are recorded in every detail in history. European society has become so accustomed to imposing its own taxation

by Parliaments, and checking it when it becomes excessive, that the ordinary man forgets that a quite different system preceded it.

More than that, he forgets also that the fiscal system of legislative Socialism predicates a return to the old methods of eighteenth-century Europe ; it is a reactionary step and not progressive. Nobody supposes that a Socialist Parliament would extort its taxes from its own supporters ; it would squeeze money out of the political minority, just in the same way that the absolute monarchy of France exempted the nobles and the clergy, and wrung the costs of its wars, its pensions, its vast diplomacy and its palaces from the peasants and the industrial classes of the land. That is always the way of autocracy, whether it be aristocratic or proletarian. It is, therefore, in the fiscal system of Royal France, and not in the violent upheaval which followed it, that we must look for an analogy to the preliminary process of evolutionary Socialism. It matters nothing that the classes affected are different. The principle and its practical consequences are the same.

Nor does the analogy end here. France of the seventeenth century had some resemblance to the society which the Socialist is determined to alter. Under a succession of kings wealth had enormously increased ; and a powerful commercial and trading class had established itself in the towns. The middle seventeenth century was a sort of French Victorian era. Then followed the period of taxation, imposed and increased without appeal, to support the political aims of the central authority.

When this new process had fairly set in, a shrewd,

large-hearted man uttered a solemn warning against it. Vauban had spent his life in defending the frontiers of France, and in travelling from one place to another. His fortifications had been erected by artisans, by peasants and by contractors, with whom he had conversed, and quarrelled, and made friendships. He had an intimate knowledge of every class in the land. He belonged, moreover, to that section which enjoyed the Royal favour, and was exactly in the same position as a civil servant would be, who, on a comfortable income, was travelling to and fro in an over-taxed England, inspecting railways, workshops, canals and houses. His treatise *La Dime Royale* is a sort of official memorandum upon the France of his day.

The fact which dominates the whole work is that in every quarter of the kingdom wealth was disappearing. A vast army of officials had assembled in every quarter of the realm to collect the taxes or live upon the exemptions which attached to employment under the State. ' Taxes are demanded with such rigour, and at such costs, that it is certain that at least a quarter of their yield is absorbed in the collection of them. One can frequently see exactions go so far that the doors of houses are sold after the contents inside have been seized ; houses have even been destroyed to sell the beams and planks at a sixth of their value.' And the result was that the farmer let his land fall out of cultivation, or killed his cattle to escape the assessment ; that the peasant tore up his vines for the same reason ; that the artisan and the ordinary citizen of the town all fell into the same method of destroying actual wealth, or allowing potential wealth to remain undeveloped.

In his lamentable picture there are many details which belong to the France of his day, but its real meaning is independent of time or circumstances.

‘ By all the researches that I have made all these years past, I have come to the conclusion that about a tenth of the population is reduced to beggary ; and that, of the nine remaining parts, about five are in no condition to give in charity to the beggars, since they are never far from mendicity themselves. Of the four parts which remain, three are poor, and embarrassed by debts and suits ; in the tenth part, in which I include the military class, the lawyers, ecclesiastics, the high and middle nobility, the civil and military functionaries, there are about a hundred thousand families ; and I do not exaggerate when I say that not ten thousand of them are really comfortably off.’

It would be unfair to take the testimony of one writer ; and, fortunately, more evidence exists. Pierre le Pesant, Seigneur de Boisguillebert, was a contemporary of Vauban. He was evidently a man of wide culture, had held high rank under the State, and it is his supreme merit to have attached the social phenomena of eighteenth-century France to laws which are as much in operation to-day as they were in 1700.

His central theme is that fifty years of excessive taxation had lowered capital values by one half.

‘ After all that has been said of our natural wealth, it is almost incredible that our revenues

should have been reduced by 500 millions a year, whether they be those which come from land or from industry, seeing that the land, the climate and the inhabitants are the same ; and seeing, moreover, that no lawyer, doctor or artisan is less disposed to earn money than he was thirty years ago. None the less, these things are not at half their original value, and their diminution, which began in 1660 or thereabouts, goes on increasingly because the cause is the same—the loss of revenue from capital, which is not now at half the figure which it was in those days. And if some properties have not suffered so great a loss, it is because they belong to certain persons of high rank, who have exploited them at a loss, to buy themselves a protection which they put to other uses.'

It is noteworthy that in this insufferable state of things exemption was always gained for political reasons. It matters nothing that, if such a condition of affairs were repeated in twentieth-century England, the exempted persons would be the political supporters of a Socialist majority in Parliament, who would possibly not be ' persons of high rank ' ; and it matters nothing that exemption would be gained by devising taxes which did not fall upon the political adherents of those who voted them. These differences of date and detail are not essential. The flood of ruin which would follow Socialistic legislation would certainly leave some dry, ' exempted ' places, for a new Vauban or a new Boisguillebert to describe with bitter sarcasm.

This is by way of commentary. This commentator on events in France goes on in terms which are absolutely independent of time and place :

‘ Other properties have gone down even more in value ; there are some which do not yield a quarter of what they used to. And those who, in former times, had one thousand livres of income, and who now have only five hundred, only employ labourers in half the number, or at half the wages ; and these labourers do the same to all from whom they supply themselves. And by that natural circulation which makes money pass through an infinity of hands before it returns to the capital which created it when its circuit is over ’—

and as everybody is impoverished during this circulation, it follows that—

‘ a loss of 500 livres a year produces a loss of about three thousand to the body of the State.’

Here, then, are the consequences of placing more burdens on a population than it can bear. They produce a result not very different from the picture drawn earlier in this chapter of English society under the grinding, intolerable burdens of Socialistic legislation. The privileged classes, who in Vauban’s picture of France had managed to extricate themselves from the general desolation, very closely correspond to those who would escape the worst effects of the Socialising process. The military, the gentlemen of the gown<sup>1</sup> and the nobility, nearly all

<sup>1</sup> In French *gens de robe*, a class of lawyers who were virtually State officials.

enjoyed State protection in some form or another. They were simply the eighteenth-century equivalent of those employees in the State monopolies who would admittedly escape, at least for a time, from the slow cancer of growing poverty and inability to earn bread. As to the destruction of property, is there any real difference between the peasant who tears up his vines, the farmer who lets the weeds grow in his cornfields, and the employer in a modern State who closes down his works and pays off his men? The act of despair and the reasons prompting it are identical. The analogy goes even further. Vauban saw with horror that there was a universal competition to pass into the exempted class, even in the humblest capacity; better be a clerk to a 'gentleman of the robe' than a merchant with property of his own; better be a camp follower with some sort of official recognition than a farmer or a labourer with none.

On one point it is possible to concur heartily in the Socialist's doctrine—he professes, openly, that his economic system is intended to change the face of society. It certainly would, for the intolerable distress of millions can only end in revolution, and revolution *does* alter the structure and outward complexion of society.

This outline of a revolution produced by economic necessity has been drawn upon a fair and generous assumption of the aims and ambitions of the best class of Socialising politicians—that, without any liking for bloodshed or violence, they would none the less bring about a state of things which would end in a revolution not of their own planning. It must, however, be remembered that this is not the

only assumption that can be made. Thousands of Socialists are striving for a revolution which is not a mere Nemesis, following upon contempt for economic laws. These men study the politics of revolution philosophically ; they read how the Paris municipality brought pressure upon the Constituent Assembly and executive by scientifically inflaming the vast rabble of the capital ; they absorb the speeches of Marat, of Danton, of Babœuf and of Hébert, which had the most inflammatory consequences. They analyse with the minutest care how the military can be corrupted ; how political groups can form armed guards ; how noisy, violent deputations of starving men can be assembled, and used to terrify and paralyse the executive ; they seek with the nicety of a poet completing his sonnets for the catchwords which will set ignorant men aflame. They dissect the whole history of revolutionary movements into their atomic parts, and specialise their knowledge.

Obviously, then, it is not enough to describe the Socialist State as a slow, methodical violation of economic laws, when many of its advocates regard immediate revolution, artificially produced, as the very essence of it. However out of keeping it may seem to be with the traditions and habits of thought of the English-speaking people, revolution is being studied in our midst as a political object in itself, and such extremists describe themselves as Socialists, on occasion voting with the official Socialists. The creed must be examined and answered. What is the best reply ?

It might be said that the best answer to an English-speaking audience would be to point out

that revolution involves injustice, not to one class only, but to all classes, and to elaborate the argument. Possibly this is so ; but, on the other hand, this is a line of thought which every right-thinking man can follow for himself. It requires but little reflection to realise that, independently of race or country, revolution implies the exercise of autocratic power by a small group of men,<sup>1</sup> alleging that they are acting in the interests of others, but at the same time responsible only to themselves ; in other words, that revolution is a state of things in which the community no longer exercises control of the executive. It might be argued that nine centuries of British history ought to be enough to make the theory abhorrent to every thinking person. On the whole, therefore, it is better not to muster arguments which must occur to anybody who thinks upon the subject ; and to deal with certain aspects of revolution, which are connected with facts not so generally accessible.

Revolution has, on the whole, been criticised from its political aspect. When Burke issued his indictment of the Jacobin system, his accusation against it was that it was inherently unjust and tyrannical. His *Reflections on the Revolution in France* contain only one short passage upon the financial system of the French Republicans. Again, though it has often been said, and with great truth, that the Russian Revolution was ruinous, the main charge against it was its brutality and ferocity. There is, however, another side to revolutionary politics ;

<sup>1</sup> It may be said generally that every revolution has been the work of a highly organised minority ; it has been declared that less than 3,000 persons were responsible for the revolution of 1917 in Russia, with a population of 180,000,000.

they are bound up in a system of spoliation and rapine, and it is provable that the system is ruinous.

The Jacobin system of spoliation practised in France, bringing, as history records, sufferings beyond description on the very creatures to whom the revolutionaries had preached salvation and in whose name they had professed to be acting, served, as they boasted in the heyday of their confidence in themselves and their theories, as a model to the rulers of Bolshevik Russia, who regarded it as an imperfect experiment, the work of *dilettantes*. They had some contempt for the casual, unmethodical confiscation of property undertaken by the Jacobins. They studied the errors of earlier revolutionaries, and were convinced that they could avoid them ; and they convinced British Socialists that their plans were certain to meet with complete success. At the Albert Hall on March 31, 1917, the Red Flag was raised and congratulations sent to the " Russian people on their Charter of Freedom." It proved a Charter of Slavery, as we now know.

Before the war Russia's principal wealth consisted in agriculture ; but the country possessed, in addition, considerable stores of metals and oils. To these should be added the supplies of deodacious timber which were annually exported from it, and the produce of the fisheries. Taking these things in order, we find that there were about 257 million acres of cultivated lands, bearing crops of cereals, potatoes, flax and hemp, and 96 million acres of exploited meadow land, in the Russian Empire before the war. A certain proportion of this was owned communally, or by the peasants and small

farmers ; but the number of properties belonging to the nobility was assessed at about 300,000, with a total value of 4,000 million roubles. The total yield of all the cultivated land in Russia, Siberia, the Caucasus and the steppes was about 7,000 million pounds in dead weight ; and the value of the exported portions very near 1,000 million roubles. Now, if we assume that the estates confiscated were only the 300,000 noble properties registered at the State mortgage banks, it must be admitted that the Bolshevik confiscators possessed themselves of a considerable landed interest—in other words, wealth, according to the Socialist theory. It should have been no small advantage to float a Socialist State with such vast resources to finance it. No capitalist Government ever dreamed of securing to itself such a handsome establishment. In point of fact, the spoliation was far more colossal, for it included the Crown Domains, banks and mines, which yielded an annual rental of about 160 million roubles. The Soviet dictators seized all the railways, factories and other industrial concerns. They repudiated all the debts of the State, as they abolished all private capital, running into many more millions of roubles. They entered on their experiment in State Socialism under what they regarded as ideal conditions ; there were no rents to pay on land or buildings ; no taxation on account of national or local debts. There were no overhead charges on any form of industry such as exist in a capitalistic State. Men were to be set to work in factory, workshop and office with the knowledge that all the wealth they created would go to the State, and the State, they were told, was

the proletariat—themselves. Service, not personal profit, was to be the incentive to industry.

In order not to overburden this study with figures, it must suffice to give the results of the Bolshevik stewardship in proportions of the original totals so far as reliable statistics are available. In the cultivated lands, the yield of rye is about 40 per cent. of the pre-war figure, of wheat just under 50 per cent., and of oats, barley, flax and hemp about the same. The effect of this diminution in real values is not, however, confined to the crops. The country's exports in 1914 were about fifteen times what they are now. The exact figures were 75 millions of roubles in 1923, and rather over 1,000 millions nine years previously. In other words 925 million roubles of national revenue have disappeared. If we deduct from this about 100 million as due to the loss of provinces and territory, the Bolshevik Government can none the less claim to have squandered 825 million roubles of national income. This enormous dissipation of wealth under the *régime* of State Socialism is far greater than anything which European history can record. The only devastation comparable to it is the loss occasioned by the Thirty Years' War in Germany; but, great and terrible as was the suffering caused by that terrific conflict, it was in no way comparable with this. In 1618 the population of Germany, Bohemia and Upper Austria can hardly have exceeded 35 millions; and of these about two thirds were really affected by the war. The loss must, therefore, have been distributed over some 23 million souls, who felt it in varying degrees. But the loss of wealth in Russia affects the whole country: it is *all* the corn-growing land,

*all* the hemp, flax and potato estates, which have reduced their productivity by half ; which means that about 100 million persons have each in their turn received their ration of poverty and unhappiness from their rulers. If suffering were a measurable quantity, one could say that the Thirty Years' War, previously known as the greatest calamity in European history, was rather less than a quarter as fearful as the Bolshevik revolution.

Nor should it be forgotten that this wide and universal desolation is purely the outcome of a political experiment. All the confiscated estates of Russia were well supplied with modern agricultural machinery and plant ; the mines and oil wells were completely equipped ; the factories were, in the main, highly efficient. Had there been nothing in the Bolshevik system but an abolition of the charges due to rent and invested capital, there should have been no results to the State revenues but increase, and no consequence to the productivity of the industries but augmentation. But there was more in the experiment than that. It contained in it all the obliterating forces of revolution and tyranny, and we know with what deadly effect they were let loose. The wealth melted under the fires of revolution as a piece of ice melts in the hot hand of a child, ignorant of physics as the revolutionaries in Russia were of economics and the workings of human nature. The conscription of capital and the nationalisation of industry led, as they must always lead, to the conscription of labour. Of all workers in the world to-day, there are none so miserable as those of Russia. They have been robbed of freedom of speech and action ; practically

all who by education and training were qualified to help them have either been murdered, banished or effectually muzzled ; they are in a condition of serfdom once more.<sup>1</sup>

The Russian experiment in State Socialism was attempted upon a country which was mainly agricultural, a fact which contains some hope of ultimate salvation for the land ; for it is obvious that a field which has gone to waste can be made to bear again at the expense of infinite labour, wisely directed. All that is necessary is that the owner or the user of it shall know that if he sows there will be a market for his harvest. This gives the suffering Russian people some pledge of ultimate recovery from the ruin into which they have fallen. But one would be sanguine indeed to suppose that those parts of Europe—Great Britain in particular—which buy no small part of their food by the wealth of their industries would have an equal prospect of recovery.

In 1913 the principal metallurgical industries of Russia produced iron, copper and manganese ore, zinc, asbestos and lead. Their total yield was well over 10 million tons. At the present moment the greatest of these industries, the copper and iron ore mines, produce slightly more than a fiftieth part of their yield in 1913 ; the manganese districts are more favoured, and produce a third ; the remainder from 12 to 22 per cent. The gold, the platinum and the silver mines, which in 1914 gave a supplementary revenue, have, apparently, ceased to bring an ingot

<sup>1</sup> By the Soviet Constitution persons of "bourgeois origin," any-one employing hired labour and clergy of all denominations are deprived of the franchise, and well-to-do peasants are frequently included in the first two categories. *Times*, January 16, 1925.

to the surface. The petroleum wells have been extraordinarily lucky ; they produce a little more than half of their pre-war output. If a very rough average be struck on these figures, and one which gives the effects of Soviet Government a charitable margin of favour, it can safely be concluded that State ownership has reduced the productivity of land by half and of industries by three-quarters.

Let us apply these figures to Great Britain. This country imports 80 per cent. of its cereals, 40 per cent. of its meat, 60 per cent. of its butter, 80 per cent. of its cheese, 60 per cent. of its fodder, and all of its sugar, cocoa and chocolate. It is a very big assumption to suppose that these commodities, combined, make up a food supply which gives all the necessities of life ; but a population could possibly live on a diet of these things, and for the purpose of a rough assessment the hypothesis is perhaps allowable. Now, these food supplies are obviously all paid for by the industries of the country working at normal productivity ; reduce that normal standard of efficiency by three-quarters and what purchasing power remains ? Few people would put it at a fifth of the original. On a very liberal and modest computation, therefore, English industries, if State owned, would buy about one-fifth of the overseas supplies which now feed the population. If 10 million souls survived the famine which would follow it would be little short of a miracle. To pursue the analysis by a further examination of figures and statistics would be the merest pedantry.

A word should be added as to the period which follows revolution. No nation can remain

permanently in a state of convulsion ; sooner or later it recovers some sort of equilibrium, in which the new society bears some marks of the turmoil through which it has passed. The French Revolution can be said to have run its course when the Consulate was founded ; and it may be—though that conclusion is by no means certain—that the Russian Revolution ended when the Bolshevik Government, turning to the greatest capitalistic States of the world for loans, allowed private capitalists to restart trading in competition with the great state monopolies. There is, however, a great gulf between the positive achievements of the two movements. The French Revolution, under the peculiar conditions of the epoch, laid the foundations of a great military power ; before it was over the Republican Armies had conquered the Rhine provinces, and almost everywhere installed themselves upon foreign soil. The Jacobins declared war very largely to assert their right to manage French affairs without interference, and they won their point. Internally, the Revolution broke down the internal barriers of the French provinces, abolished feudal privileges, and made all men equal before magistrate and tax-gatherer, as they had never been before. The objects of the revolution were political, and in large measure they were achieved ; French society was reorganised on a basis of positive results. Can it be said that the new form of Revolution in Russia, the economic variant, which was to have perfected itself by learning from all previous attempts, has gained any of the objects which it set out to attain ?

At the present moment the private trader is back in Russia, existing in a state of hardly

suppressed terror. He has returned because the peasant will not sell his produce to the State monopolies, and because foreign merchants will not deal with the State corporations. The enormous mass of confiscated property is slowly being let, or bailed to private persons who can work it. The total result is simply that, in order that the dictators who controlled the State might make a false experiment, millions of innocent men and women, of all classes and not of one only, have died of starvation and cold, or have been done to death. State monopolies undoubtedly exist ; but, as in Europe, every Government and every municipality owns a certain number of potentially profit-making concerns—that is no innovation. The Government admittedly hopes to expel the private capitalist eventually by unfair competition, and expects to achieve this purpose by a loan from States in which capitalism survives and flourishes.

In many respects Russia provided ideal conditions for the experiment in State Socialism. It was mainly agricultural, and independent of foreign trade ; it produced practically all its food and most of its raw materials ; its population was docile and obedient to orders, about 90 per cent. being unable to read or write ; the country, of great extent, possessed vast and only partially developed mineral resources. Its potential wealth was fabulous beyond the dreams of avarice. The proletariat, working, not for capitalistic masters, but for their own State, had only to labour, and Russia, freed from all the shackles of capitalism—dividends, rents and other charges—would become the richest country in the world. That was the Socialistic theory.

The Conference of the Independent Labour Party at Leeds in March, 1917, sent, on the suggestion of Mr. Ramsay MacDonald, its "enthusiastic congratulations" to the Bolshevik leaders on their work. The scheme failed, and in its ruin has involved the whole of the Russian people.

The conditions in the British Isles are the very antithesis of those in Russia. We have to produce goods in large quantities and at competitive prices in order that we may exchange them for food and raw materials in oversea markets. In normal times we succeed in maintaining our economic equilibrium—balancing our imports by our exports—by serving foreign countries in various ways—carrying their goods by sea, effecting policies of insurance, and financing their trade. These services are paid for, and with the credits we adjust our national trading accounts. The services must be rendered efficiently and cheaply or our customers will look elsewhere. Is it conceivable, in the light of the experiences of State Socialism in Russia and other countries, that we could go on rendering such services under any other system than that of capitalism, which encourages men to work and to save? State Socialism in such a country as ours, with its delicately contrived economic system, having its ramifications in the four corners of the world, means, in the last analysis, starvation, and starvation of millions of men, women and children.

## CHAPTER II

### THE NATIONALISATION OF LAND

'THE land is God's free gift to all' is the sort of premise with which those who favour land nationalisation usually start their argument. On it they build denunciations of private ownership of land as a robbery of the many by the few. Some go so far as to hold that justice demands the confiscation of all estates in land, without compensation to the present holders. Nothing, however, is settled by rhetoric of this kind, however effective it may sometimes be on a platform.

It is plain, of course, that every man, woman and child, in the last analysis, lives by the land. Everyone must have a foothold on the earth, and the right of passage from place to place across it ; all that we require in the shape of food, drink, clothing, shelter, raw material for industry, is derived from the land, in our own or some other country. If, therefore, man has a right to live, he has a right to such share in the produce of the land as his services to the community entitle him to receive. The real problem which mankind has had to solve, which it has solved in many different ways at different times, is : Under what system can the best use be made of the land, and the highest possible production procured for the benefit and

comfort of all, and particularly of the great mass of workers in factories and workshops, who are necessarily landless men and yet require to share in the bounty which Nature yields under the combined influence of capital and labour?

At the outset we must get out of our minds the picture of the land as we see it in this country and all other civilised countries to-day—the homestead, the corn-stacks, and the hayricks, the fields enclosed by hedges, and waving with golden corn or studded with beeves and sheep. We must imagine endless stretches of forest, bog and moorland, or—as in Palestine in the days of Abraham and Lot, or in the prairie States of the American continent or the veldt of South Africa to-day—undulating plains of rough herbage. It is on these last that we find the most primitive use of land. Man gathers the wild fruit of tree and bush; hunts and slays the wild animals for his food. Later he tames animals, and rears flocks and herds which are his private property; he turns the soil with spade or primitive plough, and plants therein the grains which he has found useful for sustaining life. From a nomad herdsman he becomes a cultivator of the soil, and settles if he can near some stream of water; and hence the early civilisation on the banks of the Nile and Euphrates.

In such a case, and still more where forests, bogs and moors have to be dealt with, as was the case in this country, it is obvious that no produce can be derived from the land and no sustenance for any human being, until it has been cleared, drained and ploughed, in however primitive a fashion. Labour, then, must be applied, and behind the labour must

be intelligence ; and as population increases, and further land must be cleared and planted, some part of the fruit obtained by labour from land must be reserved. What is needed is capital in addition to labour ; dwellings, shelter for cattle, implements of tillage, all the additions which the brain of man evolved to satisfy his wants and to make the labour of his hands less toilsome, are a part of the capital by which he has subdued the soil.

Quite naturally man came to regard the land which he had reclaimed from the wilderness as his own ; indeed, at first there was no one to dispute the ownership with him because, until he tamed it, the land had little value and there was no desire to own it. But this statement requires some modification, for the family, not the individual, was frequently the unit. The land was held and cultivated in common by the family. As time went on the family developed into the tribe, and the tribe brought more and more land into cultivation, until it reached some natural barrier—a river, a range of hills, or a swamp which defied primitive means of drainage—or until it came up against the boundaries of another tribe. Some form of organisation, both for defence against other tribes and for the maintenance of internal peace, became necessary. The doughtiest warrior was elected to the headship, or seized it for himself, and, as overlord of all the land, parcelled it out as he liked to those who followed him to war. Thus the ' King ' came to be regarded as the ultimate owner of the land, as the head or representative of the tribe, the actual owners of it deriving their title from him as his ' tenants.'

It is important to get this historical background clearly into the mind, because from it is derived the theory of land-holding or land-owning in practically every white community in the world. You may find, as in Hungary, or in Russia before the Revolution, estates as big as provinces, where the lord remained little less than the tribal king from whom he probably descended ; you may find peasant proprietorship, as in France, Denmark or Soviet Russia, where, after a revolution, violent or peaceful, the ownership of the land is a far more absolute thing than it is in this country ; or you may find new countries, such as the United States of America or the British Dominions, in which democratic States, claiming the ownership of the un-tilled soil, make free grants, or sell it at a low price for ownership in perpetuity to those who will bring the land into subjection and make it yield wealth for their own profit and the benefit, in the last analysis, of the whole community. In every country in the world where there is the slightest pretension to a developed agriculture there is recognition of the principle of private ownership in land. Indeed, it is not too much to say that in countries where agriculture is most highly developed private ownership is most absolute.

In our own country three impulses, which at different stages of our history have determined the character of land tenure, may be traced. From the Norman Conquest (to go no further back) to the beginning of the Tudor Period, defence and the protection of life and property were the paramount considerations. The King was the owner of the land, and he granted it to his most powerful vassals

as 'tenants-in-chief,' in return for services in the field when he was at war, and for the performance of duties in the administration of justice and the maintenance of internal order in times of peace. The tenants-in-chief apportioned their lands among sub-tenants, who enjoyed civil rights in varying degrees, and were under obligation to follow their lord to war, and to render him services and dues in return for their holdings in land. Feudalism of this kind came more or less to an end with the Wars of the Roses and the establishment of the strong personal rule of the Tudors. The sub-tenants of the manor enjoyed thereafter greater personal freedom and greater freedom of contract ; their title to their holdings became in many instances almost indistinguishable from freehold. Moreover, a large class of actual freeholders—the yeomen whose estates were enclosed and cultivated by themselves—came into being.

The controlling impulse in this second stage was the production of wool, the staple industry of the kingdom, which formed the main commodity of foreign trade. Agriculture was then conducted on the system known as 'subsistence husbandry' ; that is to say, the population being mainly rural, each family raised food not for sale, but for its own consumption, and relied on the sale of its wool for the satisfaction of its other needs. Cultivation was to a large extent communal. Each family on the manor had the right to so many strips of ground, these being changed from year to year, and to the produce thereof, as well as to the use of the common waste or pasture land ; but the ploughing, sowing and reaping were done by the co-operative labour of

the community. The standard of production even of virgin soil was very low for reasons which can readily be understood. It was no one's business to raise the yield of the land. One-third was left fallow each year, and, even so, the productivity declined.

The third stage came about with the growth of manufacture, mainly in the north, which withdrew a great number of the people from direct food production and led to a rapid increase in population in towns and cities, which had to secure food by some means or other. The 'open field' system and 'subsistence husbandry' no longer sufficed when this industrial revolution occurred. The land was allotted in proportion to those who had customary rights in the manor, so that each holder could apply his energy and his capital unreservedly to his own holding, and adopt the improved methods of scientific agriculture, which meant heavier expenditure, by which alone the increased population could be fed.

But the capital possessed by the majority of the smaller tenants of a manor was commonly insufficient for the required development. They therefore sold their rights to the lord, and became yearly tenants or leaseholders for a term of years on payment of an agreed money rent. By this means they obtained the use of the lord's capital in the shape of improved houses and buildings, drainage, the making of roads and bridges and culverts and so forth, leaving whatever capital they themselves possessed for the purchase of stock, seeds, manures and machinery, and for the payment of hired labour. Thus arose the tripartite system of landlord,

tenant and labourer, which is prevalent in Great Britain to-day.

That many injustices were done in bringing about the change is true; but on the whole it succeeded in its object, in that up to about 1840 the production of food from British soil sufficed for the growing population. The relation of the landlord to the land approximated more nearly, no doubt, to that of absolute ownership.

It will be seen from this necessarily hasty review of land tenure in Great Britain (or perhaps we should rather say England, since Scottish tenures differ in some important particulars) that it has always been modelled to suit the social and economic needs of the country at various stages of its development. The land 'owners' or holders have never been mere rent-receivers, but have always rendered services of some kind or another in return for their rights, as tenants of the Crown; for in strict legality the Crown is still 'the sole master and owner of all the land in the kingdom.' Those services were perhaps less conspicuous in the middle period than in either of the other two—at least they differed in kind. In the first, they were military and administrative rather than economic; in the last, they have been more purely economic.

It may be well here to say a word about rent in theory and in practice. The Socialist objection to rent is that it is a toll taken by the landlord, who has dishonestly 'cornered' the first necessary of life, for permitting its use by the public. That is to misread the history of land in this country. Its value depends on the capital which has been put into it over a long series of years, and the rent is

the interest on the capital. It is incontrovertible that, setting aside such factors as proximity to markets and other amenities created by capital, the lands which yield most are those which have had most capital applied to them. The corn lands of Lincolnshire, for instance, were for the most part unproductive fenland until expensive drainage schemes were carried out by the employment of landlords' capital. The rent of agricultural land to-day, when expenses of maintenance and outgoings in the shape of rates, taxes and tithe have been deducted, represents little if anything beyond interest on the capital sunk in the farms by the landlords. Mr. MacDonald himself recognises that 'all income from land is not rent, because part of it is derived from improvements made by capital, and is therefore not rent, but interest.' In very many cases, as landowners know to their embarrassment, for the land itself *nothing* is received, as was proved by the Government Agricultural Policy Sub-Committee of the Reconstruction Committee, which reported in 1917 :

' The rent which the landowner receives rarely represents an interest of as much as 5 per cent. on the capital invested in the *industrial equipment* of the land, and often includes *no interest whatever on the capital value of the land itself*. In the majority of cases the landowner receives a return in the form of rent on the capital represented by the value of the land and its industrial equipment taken altogether, which a *manufacturer* would consider an altogether uncommercial rate of interest.'<sup>1</sup>

<sup>1</sup> Cd. 9079.

Land without capital has generally little value. With the expenditure of capital it acquires its value ; but the return on capital is not excessive and indeed is often less than the return on industrial capital. Sir E. J. Russell, the director, carried out at the Agricultural Experimental Station at Rothamstead an experiment to ascertain what would happen to highly cultivated land if the expenditure of capital and labour ceased. He enclosed some wheat land in 1882, and in 1919 he reported that within a few years it "had become a tangle of trees and bushes of no commercial value whatever ; this was no doubt the original state of the land." In his opinion the cost of clearance would be "more than the capitalised value of the rent."

But there is another consideration which must be stressed. Since 1850 this country has been becoming more and more dependent upon foreign food supplies. Rightly or wrongly, we have refused to do what has been done in every other country, namely, to recognise that a prosperous agriculture is necessary to the safety and social well-being of a nation, and to take steps to maintain a proper balance between husbandry and industry. Agriculture has been the step-child of the State for seventy years past ; British ports have been thrown open to the corn of other countries which are able to follow mass-production principles and grow corn cheaper than we can grow it. It may be safely said that had it not been for the high sense of public duty shown by the owners of agricultural estates as a whole, who assisted their tenants through the most difficult times, sometimes wholly ruining themselves, agriculture in this country would have well-nigh

perished between the years of 1879 and 1900. As a consequence, numbers of estates have been sold—many, unfortunately, to men who have desired land for the sake of social position or as a plaything, and others, especially since the war, to the occupying tenants, many of whom are suffering from the fact that they bought their holdings with borrowed money during the time of inflation and high prices, and are now hard put to it to meet their mortgage interest.

It cannot be denied that the agricultural land of this country is not now producing all it ought for the maintenance of the population; though production has been doubled since 1850 by the application of artificial manures and the labour halved by the use of machinery. But there is no proof whatever that the blame for any failure to obtain the fullest yield from the land lies at the door of the system of private ownership, crushed under a heavy burden of national and local taxation. Nationalisation would not raise the price of agricultural produce in this country in the face of world competition, nor would it reduce costs, for the interest on capital and charges must be found somehow under any system; even if the land were confiscated, interest would in simple honesty have to be paid on the capital invested in it. As a matter of fact, the Socialist case against the so-called 'land monopoly' rests, not upon the use of agricultural land, but upon the high price often asked for land required for building purposes in or near big towns, and especially on the holding up of land urgently needed in anticipation of a rise in value. We are not concerned to defend landlords who make a

ruthless use of their rights to the public detriment. But frequently it is the landlords who have created the high value, as instance the Devonshire family's development of Eastbourne and the Duke of Newcastle's canal enthusiasm and the encouragement the wisest landowners gave to railway development, hazarding their fortunes in a manner which the majority of people at the time regarded as stark madness. But there are other ways of obtaining roast pork besides burning down your house, and where cases of extortion occur it is surely possible to obtain powers of compulsory purchase from Parliament.

Land nationalisation is a subject of which Socialists in this country seem rather shy at present. Whether this is due to the lamentable fact (from their point of view) that revolutions seem always to lead to the establishment of peasant proprietorship, as in Russia in our experience, or whether it is that all their attempts to formulate a detailed scheme are greeted with Homeric laughter by the countryside, we do not know. The reflections of Mr. MacDonald, a journalist before he stepped on the political stage, are charmingly naïve. Since the war and the creation of the new States, he has confessed that 'Socialists have had to consider the problem of land tenure, not in the abstract, but in the concrete. . . . Many of the new democratic States consist up to 80 per cent. or 90 per cent. of peasants to whom land nationalisation is alien . . . so these new peasant States had to be based on peasant cultivation and ownership. Such is the case in Russia, Czecho-Slovakia, Bulgaria, Georgia.' Bulgaria is hardly a case in point; but,

of the other three, Mr. MacDonald omits to mention that they were all countries of large estates, and that peasant proprietorship is a direct result of the revolutions that have taken place. He adds that ' Fortunately such cultivation and ownership offer no insuperable difficulties to Socialist organisation.'

This is a remarkable concession. The fundamental doctrine of Socialism is that all the means of production should be owned by the public ; yet the leader of Socialism in this country is prepared to leave what he and his friends declare to be the basic source of all production in private hands. Could opportunism go further ? There are, however, restrictions which go far towards making the concession illusory. The amount of land which may be owned by any individual is to be limited ; the right of letting and sub-letting and of sale is to be strictly controlled ; the produce is to be bought by some sort of public Co-operative Society, if we understand him rightly, at a price to be fixed by some sort of committee ; and the land is to be taxed on a different basis from other kinds of property, and on an assessment 5 per cent. to 20 per cent. higher. Whether this is likely to encourage the highest possible production from the land in the public interest we need hardly stop to enquire.

The Socialist Party has not, up to the present, approved Mr. MacDonald's flirtation with peasant proprietorship. It has adopted a weird scheme by which a Central Land Board is to be set up, to which will be entrusted the management of the national estates, and which will act through local agricultural committees. Farms will be let in perpetuity to

approved tenants, who will have the right to sell their holding or to leave it by will to approved purchasers or heirs. They will farm under the control of the Local Agricultural Committee, to which they will pay rent. What a prospect for the countryside ! They may own their houses, buildings, fences, bridges, and any improvements they may make will be absolutely theirs. As regards land other than agricultural, a man may own the house he lives in, but not the land it stands on or the garden attached to it ; he may own his bush-fruit, but not his apple-trees. He must cultivate under the direction of the local committee, to whom he will presumably have to apply for leave to prune his fruit-trees or to plant an asparagus bed. This in the country in which individual freedom came to its birth ! What public advantage is expected to issue from a scheme like this, which merely abolishes one set of 'owners' and establishes another, hampered by a lot of impossible conditions, subject to committee domination, and inevitably possessing less experience, it is impossible to see. Our present use of land may be imperfect, but its imperfections do not arise, as Socialists assert, from monopoly. Except in the case of some building land, there is no tendency to withhold land from public use. Most owners of agricultural land are only too glad to let it at a rent which gives a low return on the capital outlay of themselves and their predecessors in title.

The history of agriculture in every country warns us that any attempt to establish communal cultivation on the Socialist plan would be a step backwards, leading to a reduction of the food production of our

native soil and a further increase in our dependence on supplies of food from overseas, to be paid for, if at all, by an increase in our surplus of manufactures for export. To suppose that a soulless system of committee management—even if alleviated, as Mr. MacDonald suggests, by village dances—will produce a flourishing husbandry or stimulate the rural virtues is a childish dream.

## CHAPTER III

### THE BANKS AND INDUSTRY

IN Molière's play *Le Bourgeois Gentilhomme*, when Monsieur Jourdain employed a professor to teach him prose, he discovered that he had been talking prose all his life without knowing it. Similarly, many a man is a capitalist for a great part of his life without knowing it.

When a man's earnings are paid to him monthly or quarterly instead of weekly, and are therefore dignified by the name of 'salary' instead of 'wages,' he usually opens a banking account to obviate the danger of loss from keeping a comparatively large sum of money on his person or in his cash-box, to lessen the temptation to eat all his cake at one meal, and to simplify the payment of his bills. He pays his monthly cheque to the bank, and he draws out the whole or such portion as he requires by a succession of smaller cheques. The only matter which exercises his mind is the unaccountable reluctance of the bank manager to allow him to draw out more than he has paid in. Does he never wonder why a breed of philanthropists is to be found who will keep his account for him for nothing or for a ridiculously small commission? Bankers are not philanthropists, however. They keep his account and those of others merely because it pays them to do so.

Smith—or any other name will serve our purpose—is earning, we will suppose, £1,000 a year. He gets a monthly cheque for £83 6s. 8d. He has a wife and a boy of fifteen or so, for whose schooling he has to provide. Smith is an intelligent and prudent man. Therefore he keeps his domestic outlay and the personal expenditure of himself and his wife down to £33 6s. 8d. a month, leaving £50 a month in his bank to accumulate in order that he may meet his quarterly and annual charges and put by something against sickness or old age, or a rainy day. Income Tax, house rent, rates, insurance, the boy's schooling and such-like expenses are duly met, and at the end of the year he finds himself with a balance on the right side of £100.

Now, if he had put his savings into his stocking each month, the money would have remained inert, unfruitful. In the banker's hands it has been lent to people who needed it to assist them in carrying on their business, and it has gone probably in payment of wages in anticipation of the sale of the goods made in some factory or workshop. Every penny of it has been turned into 'Capital,' until it has been required by Smith himself, and the risk has been the banker's, and not his. The banker knows by experience the average of deposits he is likely to receive from all his customers, and the amount which they are likely to withdraw. He is therefore able to put part of their money out at interest and yet to make sure that he will always be able to meet their cheques whenever they are presented. He probably pays them no interest on the money standing in their current account, which may be small in individual cases, but in the aggregate

and gave their name to Lombard Street, which has been the headquarters of banking in London ever since. In Tudor times the business of banking largely passed into the hands of the Goldsmiths' Company, which financed the voyages of the merchant adventurers in order to obtain supplies of the precious metal, and lend it, when obtained, to kings and nobles, gaining thereby no small advantage.

The method of financing the merchant adventurers of the past exemplifies the practice of bankers in oversea trade in the simplest form. A, B and C, let us say, desired to send a cargo to the Levant. Their own resources were sufficient to purchase the wool and woollen goods of which the cargo was to consist. But there was yet the ship to be provided, and the shipbuilder required immediate payment. The merchant might go to the Goldsmiths' Company, and on security being given for payment out of the proceeds of the voyage, the goldsmiths might advance the money to satisfy the shipbuilder. Or the transaction might take another form. The merchants might give the shipbuilder a bill promising payment on the ship's return, with such other security as they could muster in the event of her loss at sea. Supposing the shipbuilder found himself short of cash before the merchant's payment fell due, he might sell the bill to the Goldsmiths for the sum promised, less discount, with the interest up to the agreed date of payment, and the Goldsmiths would collect the money from the merchants on the favourable termination of the voyage. Thus at the very beginning of oversea trade the banker proved himself indispensable.

The Goldsmiths continued to flourish in the rôle of bankers until, in 1694, when the Government of William and Mary, finding itself short of money, the Bank of England, projected by William Paterson, but actually founded by Montagu, the King's financial adviser, was incorporated with a capital of £1,200,000, the whole of which was immediately advanced to the Government at 8 per cent. The Bank of England is, and always has been, a private joint stock corporation, free from Government control, though it is used by the Government as the medium of its financial transactions and is regulated by Statute, receiving certain privileges in return. The statesmen and financiers of this country have always looked with disfavour on the idea that the State should itself undertake banking operations. It is, indeed, a fixed principle of sound finance that banking should be divorced from all political interference. When the League of Nations undertook the salvation of Austria and of Hungary, the establishment of independent banks of issue in each country was an essential part of both schemes of economic reconstruction. The reason is a simple one. Governments in difficulties are always apt to set the printing-press to work, as the Russian Soviet administration did, and as the German Government did, in order to create paper money, with the result that credit is depreciated, and every kind of trouble occurs. That is a diversion, but an important one, in view of the Socialist proposal to nationalise British banks.

Within the next fifty years, to resume our brief historical record, several private banks were established in London, of which Messrs. Hoare's in Fleet

Street and Messrs. Child's in Chancery Lane were among the earliest ; but up to the beginning of the industrial era there were only twelve such banks outside London. Now every little market town has a branch of at least one, and perhaps two or more, of the great Joint Stock Banks, into which the private ventures have been merged.

When the Industrial Revolution took place in the latter half of the eighteenth and the first half of the nineteenth centuries, the need for banking facilities, to enable factories to be built and equipped and wages to be paid in anticipation of the sale of the goods manufactured, created the supply. Some weaver, let us suppose, making cotton cloth with the aid of his family with a hand loom, grasped the possibilities of the power loom and the steam engine. In five years' time, perhaps, he might hope to have put by enough money, the savings of industry and careful living, to equip himself. But he needed a safe repository for his money in the meantime. He lodged it with a lawyer or a tradesman, whom he knew and trusted. In the same district lived another man who saw his way to opening a mine, if he could obtain the necessary capital. Through the lawyer or the tradesman the savings of the one were lent to the other, to the mutual advantage of both. The weaver's money did not lie idle ; the interest earned hastened the time when he could acquire his machinery, and a supply of coal from near at hand helped him when his power loom was set up. Conversely, the savings of the weaver (of course, in practice it would take the savings of a great many weavers) enabled the prospective coal-owner to carry out his plans. The lawyer or the

tradesman was rewarded by the difference in the interest allowed on money deposited and that charged on money borrowed, and developed into a banker.

The private banks served a useful purpose, especially in country districts where the banker-proprietor, or his manager, knew all his customers intimately, and could appraise their personal credit to a nicety. Many a farmer and tradesman has been saved from bankruptcy by a loan from his bank, for which he could offer no security that was theoretically sound. For this reason many people regret the absorption of these banks by the large joint stock concerns, which necessarily trade more in accordance with hard and fast rules. Others again fear lest the gathering of the threads of all the banking business of the country into a few gigantic corporations may tend to concentrate the power of finance too closely. Defenders of amalgamation reply that, as a matter of fact, no great change has been made; that the old managers have been kept on, and are given a very wide discretion, while customers gain by the greater security for their money given by the immense reserves which the joint stock banks command. Further, it is urged that competition between the big banks is so keen that it is a question whether the expense of maintaining branches of two or three different banks in quite small towns is justified, and in any event the rivalry is effective as a precaution against arbitrary action on the part of one bank. There is, no doubt, something to be said on both sides; but it is sufficient for all practical purposes to note that the small private banks have disappeared by the natural process of economic development. It is

fruitless to regret what was apparently an inevitable development, which has taken place, fortunately, without injuring the credit of the banks or subordinating the personal element in banking in this country, which has always been its distinguishing feature.

We have shown shortly how banks operate as receivers and users of the money entrusted to them by their depositors. We must consider next their functions as lenders, first to industry, and next to Governments.

A manufacturing business has most of its issued capital—often the savings of former generations of investors—locked up in the form of buildings, machinery and other plant, and in stocks of raw material. Its reserve funds are invested in War Loan or other securities. It keeps in ready cash at its bank only sufficient to meet its day-to-day calls for wages and other current expenses. The chance of securing a big contract comes along, and it needs to employ more labour, to purchase larger stocks of raw material, greater supplies of coal to run its machinery up to full capacity, and so forth. To issue fresh shares or debentures would be to load the company unduly with permanent responsibility; to sell securities in large blocks might be wasteful. Here the bank comes in, and affords the cheapest and quickest means of obtaining the funds required by permitting the company to overdraw the necessary amount against securities held by it. For this accommodation interest is charged at a  $\frac{1}{2}$  or 1 per cent. above the bank rate, according to the character of the security held. The sum is repaid when the contract is completed, the goods delivered and

payment received. The manufacturing firm draws the money as it requires it, so it is saved the expense of keeping money inert and unproductive.

In point of fact, these overdraft transactions are always going on, and furnish the necessary elasticity without which the financing of industry would be a very difficult business. Of course, bankers sometimes burn their fingers in this way. A customer, already indebted to them, meets with misfortune, and seeks a further advance in order to pull his business round. If it is not given, the sum already advanced will be lost. The further overdraft is therefore allowed, although the tangible security is insufficient. If things still go wrong, good money is thrown after bad. It is in gauging the personal credit of the customers that the banker shows his soundness of judgment, and that is where the personal knowledge between customer and bank and freedom from cast-iron regulations, usual in all State-controlled institutions, operate.

Bankers are sometimes accused of profiteering on account of the difference between the rate of interest allowed to depositors and that charged for advances; but it must be remembered that not only have expensive establishments and staffs to be kept up, but also risks such as that mentioned above have to be taken. Moreover, every bank is bound to keep a certain amount of inert money to meet withdrawals by its depositors. All this has to be provided for between, say,  $2\frac{1}{2}$  per cent. allowed to customers on deposit and 5 per cent. charged to borrowers. So the profit on each transaction cannot be exorbitant.

As regards Government loans, the convenience

of the banking system was shown during the war, when every few months loans running into hundreds of millions had to be raised. Having obtained its Vote of Credit from the House of Commons, the Government issued its loan through the banks—at a figure slightly below par. Much of the loan was subscribed by the banks themselves, not for retention, but in order that, as occasion arose, they might pass their holdings on to their customers—persons who had saved money. Profits were being made by manufacturers who provided war material, and a great part of these were carried to reserve to provide against the anticipated need of capital when peace returned. Much of these reserves were invested in the various War Loans. Thus the banks, which prefer to make short-term loans rather than long-term, were able to realise and have money available for further transactions.

This principle of short-term lending is a primary principle of banking. If the banks had their money locked up for long periods, it would not be available for the day-to-day needs of industry, and a great increase in the currency would be required. If the currency be increased beyond the amount of substantial wealth represented by it, 'inflation' occurs, and the prices of all commodities rise. This point will be referred to again later. Bankers do make loans for comparatively long periods; but the practice is not favoured. To keep money in constant circulation, and thus to make it go as far as possible in nourishing trade, is the essence of sound banking.

If manufacture depends on the banks and on the credit they give for elasticity, foreign trade depends on them for its very existence; and if our foreign

trade were injured this country would be confronted with ruin. It is on the credit of banks, rather than of individuals, that contracts between traders in different countries depend. The usual instrument by which payment is made is a bill of exchange, which is simply a promise to pay at a certain date a sum named on the face, and is negotiable—i.e. may be passed from hand to hand for value—on endorsement by the recipient, or may be discounted by a bank ; that is to say, the holder may receive ready cash for a debt which does not fall due till 30, 60, or even 90 days later.

Bills of exchange—or ‘acceptances,’ as they are often called—are, of course, in common use in trade of all kinds. The method in foreign trade, reduced to its simplest form, is much as follows : Suppose an English corn merchant purchases a cargo of wheat from a corn factor in Australia. For the Australian to wait for payment until the cargo is delivered to the purchaser, and until a remittance for the price could reach him, would mean that he would be kept out of his money for an intolerably long time, and he wants the money to pay wages, to till the land, and to sow fresh seed. Conversely, the Englishman could not be expected to pay before he has security for the delivery of the cargo. The importer, therefore, draws a bill in favour of the Australian corn factor, which is accepted by his London bank—that is to say, the bank makes itself responsible for payment. This bill is sent to the seller, and can be cashed by him at the bank in Australia, which acts as agent for the importer’s bank in London, against the deposit of the bill of lading and other documents, which prove the title

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of the importer to the cargo now in transit. These documents, along with the bill of exchange, are transmitted to the London bank, and are held by it against payment by the importer. The ramifications of the system are endless, for the bill of exchange may be endorsed and passed from hand to hand. No money passes ; the whole transaction rests on credit ; accounts between the banks are balanced up without any interruption of trade. In this way, in association with charges for insurance and freight, forming part of our 'invisible exports,' we are able to adjust our national trading accounts. In this process the banks and their prestige play an essential part. Injure that prestige and the machinery of exchange would begin to creak, and every home would suffer. The volume of foreign trade financed by bills of exchange may be realised from the fact that when war broke out in August 1914 there were sterling bills on London in circulation abroad to the value of no less than £400,000,000. As bills are rarely of greater duration than 90 days, this represented at the outside three months' foreign trade.

Now, what does this wide use of bills of exchange mean to industry and commerce? Simply, as has been suggested, that the banks, by their known solvency and stability, and by the confidence felt in the judgment and experience of those who conduct their business, facilitate the use of credit—which is merely belief in the willingness and capacity of a debtor to fulfil his promises—to supplement the currency. At the present time the total amount of the deposits of customers in the banks of Great Britain is equal to eight times the

whole of the legal tender currency. In order to render these assets available for the purpose of industry and commerce means are required to make them function as currency. The fact that traders and the public are willing to take bills of exchange and bank-notes in place of metallic coin is due to the confidence that 'the stuff is there'; that is to say, that these instruments are not merely fictitious wealth, mere pieces of paper, but do actually represent the stored fruits of past production—in other words, real capital. If hard cash—money, as the Socialist orator imagines it—were required as a medium for every exchange of goods, many times the present amount of liquid capital would be needed to finance the present volume of trade. The banking system enables many transactions to be carried through on an amount of capital which, without it, would only suffice for one.

Mr. Ramsay MacDonald, in that curious production, *Socialism : Critical and Constructive*, in which he achieves the feat of basing temperate conclusions on premises of soap-box rhetoric, admits the need for such a 'pool of capital' as is now provided by the privately-owned banks, but announces that 'the change which Socialism would make would be to make arrangements for its own necessary accumulations, from which to provide for the replacement of used and the supply of otherwise required capital.' To this end 'the first step to be taken is to establish a State Bank, which will be based upon the industrial business of the country and be run to promote its ends.' This bank, let it be noted, 'would have the sole right to issue paper currency, and to it the Mint should be attached'—thus going directly

against the sound principle hitherto honoured by all bankers and laid down by the League of Nations when it set out to rescue Austria and Hungary from bankruptcy.

What precisely Mr. MacDonald means by a bank 'based on the industrial business of the country' is not very clear. Perhaps he could hardly explain it intelligently himself, for he has never had any connection with industry. But his proposal to confer on his State Bank the sole right to issue paper currency and to attach the Mint to it justifies one of the main criticisms which those experienced in finance level against all such proposals. The Government of the day, having in its hands the whole financial resources of the nation, would be under an irresistible temptation to use them for purposes of its Socialistic experiments. That would involve locking up capital for long periods in a manner which it is the first principle of sound banking to avoid. What would be the consequence? Money would be needed, as at present, to finance industrial undertakings; capital representing real savings would no longer be liquid; and the State Bank would meet the difficulty by exercising its 'sole right to issue paper currency'—in other words, the printing-press would be set to work, as was done by the Bolsheviks in Russia; inflation would follow, which would blow up prices sky-high, inflict untold hardship on all the people of this country, the poor even more than the rich, depreciate the value of the pound sterling in every foreign market, which would make our imports of food and raw materials dearer, and speedily bring to an end our oversea trade.

This is one very real danger of State banking;

but it is by no means the only one. At present the Government has no free money of its own. Its resources are derived from taxation voted by Parliament, and are applied solely to purposes sanctioned by Parliament, and in such proportions as Parliament determines. It can only borrow on Ways and Means for such purposes, and for limited periods. If it requires a loan for a long period, it must obtain a Vote of Credit from the House of Commons. Thus Parliament keeps control over national policy. But if the whole resources of the nation, derived from any profits which might be earned on nationalised mines and railways, let us say, from the annexation by the State of the 'surplus' profits of private undertakings, and presumably from individual savings, were lodged in a State Bank, under the control of the Government of the day, it is difficult to see how that Government could be prevented from utilising those resources for any purpose it might choose, without Parliament having a voice in the matter, or even knowing anything about it at all until confronted with a *fait accompli*. Half our history consists of the struggles of the nation to prevent the arbitrary use of its resources by its kings. Socialism, as advocated by Mr. MacDonald, involves the danger of a like power passing into the hands of the Cabinet with possibly a subservient majority in Parliament or even one more concerned for its theories than for the maintenance of national credit, on which, in the last analysis, employment depends.

The Socialist leader again utters a solemn warning against the danger which lurks in the uncontrolled power of private financiers. 'If a Labour Government came into power they could starve it,' he

complains ; ' a financiers' counter-revolution would be more effective than a soldiers' one.' ' Finance can command the sluices of every stream that runs to turn the wheels of industry, and can put fetters upon the feet of every Government that is in existence.' Even if this be true in theory, finance (to continue in Mr. MacDonald's metaphorical vein) has a rooted objection to cutting off its nose to spite its face. The first duty of its directors is to turn to profitable use the savings entrusted to them. If in order to serve political ends, they were to neglect sound commercial opportunities their reign would be a short one, because they would surrender the confidence of their customers.

But there is another side of the picture ! A Government in control of the whole savings of the nation could assuredly so manipulate the use of credit as to serve its own political ends. It could tighten the purse-strings to one industry—say agriculture—and loosen them to another—say mining—according as agriculturists or miners were hostile or friendly towards it. The vote might well come to have a price. ' Business is business ' is an oft-abused maxim ; but it points the way of safety when there is a disposition to interweave business and politics.

It may be conceded that in the ' Co-operative Commonwealth ' of Socialist dreams a State Bank, with dependent Municipal Banks as advocated by Mr. MacDonald, would be essential. But to admit that is merely to give greater force to the general objections to nationalised industry.

Mr. MacDonald, who obviously knows little or nothing of finance, speaks of the present system as

'financial parasitism.' But just as the ivy sometimes upholds the oak, so the 'financial parasites,' as he calls them, do from time to time, and much more frequently than the public knows, risk large sums of money in order to keep on foot businesses the failure of which would cause widespread distress. Mr. E. C. Grenfell, M.P. for the City of London, in his speech on Mr. Snowden's nationalisation motion in the House of Commons, recounted the following experience of his firm :

'Having taken the best advice, as we thought,' he said, 'we introduced to the public the debentures of a mining institution. After we had done so, we found that the institution was not producing profits, that it would probably not pay interest on the debentures, and that it would be a very unfortunate thing for the investors. . . . My firm and one or two directors decided to put up first £100,000, then £200,000, and then £300,000, before the concern ran. When that did not pull it round, and still more money was required, we almost felt like giving it up. We had a deputation from the country to say that if we did so—it was in the winter—some 20,000 men and their families would be out of work. Another £150,000 was therefore put up, and fresh management was again tried. After six years that concern became a flourishing institution.'

Mr. Grenfell asked : 'If that had been a Government institution . . . would the Government have felt justified in throwing £500,000 or so after the other money? If they had done so, would they

have done it openly, or would they have tried to conceal it in their accounts, with various other things? ' Mr. Grenfell's question gives reason for serious reflections on the financing of nationalised industries. It is quite possible that a Government would have thrown in the £500,000 in order to keep the 20,000 men—all of them voters—in work, and that they would have continued to throw money in, regardless of whether the venture became profitable or not, thus retaining a great Labour force on uneconomic production. If the mines were State-owned and State-financed, it is quite certain that many which are unprofitable would be kept working in order to avoid dislocation of labour. It is, indeed, a declared part of the Labour programme to make the profitable mines pay for the unprofitable, at the expense eventually, of course, of the consumers of coal, industrial and domestic, and the expense also of the valuable export trade in coal.

The temptation to manipulate industry for political ends would be almost irresistible in a country where the Government depended on the popular vote for continuance in office. If the power of the purse rested entirely in the Government's hands, such manipulation would be fatally easy without regard to any interests but those of the party represented by the Government. Banking, however, is really not national, but international; the banks of most countries have branches, or at least agents, in this country. Could any Government prevent British people banking with these private foreign banks? If they attempted to interfere with this freedom on the pretence that

no competition with the State Bank was permissible, the whole machinery of trade and commerce, which is also international, would be smashed, and the people of this country might soon be starving.

With banking in private hands, the safeguard against the abuse of monopoly is to be found in the number of people interested as shareholders and depositors in its commercial success. The directors dare not use the weapon of finance for political ends, and history asserts that they have never done so, whatever the political party in power. They appraise individual credit solely on the character and solvency of the applicant. They seek as trustees for their customers to make profit and avoid loss; therefore they assist sound business and discourage wild-cat schemes, whatever the motive that prompts them.

Let it be realised that finance is a science different from, but complementary to, production and distribution of goods. The interplay of the brains and experience devoted to finance, trade and commerce helps to protect the public and to direct its savings into safe and fruitful channels. It is, moreover, the high credit of the banks and the fact that predatory Governments, however embarrassed, cannot raid them, that supports thrift in all strata of the nation. If once investors ceased to have complete faith in the banks, who would save money to put into them? If money were not saved, how would new factories, workshops, railways, ships and other developments be financed? Like Cæsar's wife, the banks must be above suspicion, and a State Bank would, as the history of other countries in the past few years has revealed, always be in

danger of being used for political purposes, risking its funds in crazy schemes intended to win votes. It is not the bankers alone who would suffer in those circumstances, but everyone who has managed to put by a few pounds, as well as the great trade unions, the friendly societies and the building societies. Thus every home, however humble, would be the poorer. National credit would fall, industry would be handicapped, London would cease to be the financial centre of the world, and this country's star would set.

## CHAPTER IV

### THE NATIONALISATION OF THE MINES

THERE is no mystery about the concentrated demand by Socialists for the nationalisation of the coal-mines. Coal is the principal raw material of practically every industry in the country, and they are satisfied that if some scheme of Socialisation of the coal-mines could be carried out it would be no difficult matter to drive in the wedge still farther until the railways and all the principal industries using coal had also been nationalised.

In this particular instance theory can be tested by a considerable body of fact. What has been the actual experience of nationalisation of mines in the countries where it has been adopted? In this country we have some evidence of what it would mean, since coal was under State control during the Great War.

' In 1915 the output of coal in the United Kingdom was 253 million tons. That was at the beginning of national control in the coal industry. Anybody who had anything to do with the management of collieries from 1915 to 1921 would say quite frankly that it was nationalisation. They were taken almost completely out of the hands of the coal-owners. In 1920 the output

had fallen to 229 million tons, whereas the number of men employed in the industry had increased from 950,000 in 1915 to 1,250,000 in 1921. So that under State control, which is nationalisation under another name, you have a reduction in output of 24 million tons and an increase of 300,000 in the number of people employed. In 1915 the output per man per year, which is probably a better standard, was 258 tons. In 1920 the output per year fell to 183 tons. Therefore, the result of control was to reduce production and increase cost.<sup>1</sup>

Coal control continued until 1921, when it came to an end. A loss was being made at the rate of £5,000,000 a month. The industry had to be handed back to private enterprise to save it from bankruptcy. During the period of State control the consumer, both industrial and domestic, was forced to pay an increased price for inadequate quantities of a very inferior article, and every industry was handicapped by the dearness of fuel.

Germany is the only country with an output of coal at all comparable with that of Great Britain, in which nationalisation of mines has been put into practice. Official figures prepared before the war showed the following results of the German experiment<sup>2</sup>:

(1) Rate of production slower than at privately-owned mines.

<sup>1</sup> Sir Beddoe Rees. House of Commons, May 16th, 1924.

<sup>2</sup> Memo on Coal-mining Conditions in Germany, based on official and diplomatic reports, issued by the Monmouthshire and South Wales Coal-owners' Association.

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- (2) Cost of production higher.
- (3) Price of coal higher.
- (4) Wages of miners lower.

In the *Weltwirtschaftszeitung* of March 14th, 1924, Dr. Alfred Schmidt-Essen wrote :

' The State has not been able to increase coal production as private companies have done, as the following table shows. The share per cent. of the various coal districts in Germany's coal output was as follows :

	Ruhr (Private- owned)	Upper Silesia (State- owned)	Saar (State- owned)
1860 .....	46.6 .....	24.7 .....	19.5
1880 .....	53.0 .....	23.8 .....	12.6
1890 .....	55.2 .....	26.2 .....	9.4
1910 .....	59.9 .....	24.4 .....	9.3
1913 .....	60.2 .....	22.8 .....	8.9

' This shows that the share of the almost exclusively private concerns in the Ruhr district has increased during the last 50 years by about 15 per cent., while that of the State mines has declined by 12 per cent. It may be suspected that the lack of private initiative gives the clearest explanation of the backwardness of the State mines, as is frequently acknowledged and regretted in Socialist quarters as well.'

The evidence against the nationalisation of the coal-mines is indeed overwhelming. The

experience of State control in Germany disproves the argument that the prices to consumers will be lower than under private enterprise. In any estimate of price economics in Germany the fact must be borne in mind that the bulk of the coal was disposed of in that country under monopoly conditions, and that the Westphalian Syndicate was primarily interested in serving the financial interests of its members in its price policy. As a result of these conditions, complaints were general against the price policy of a syndicate which maintained home prices above the competitive level, and dumped coals in foreign markets at prices appreciably lower than those charged the home consumer in Germany. The high-level prices in Silesia and the Saar district were particularly resented, because in the former the State mines participate to a great extent in the production, and in the Saar district they, in fact, reign supreme.

Dr. Schmidt-Essen has stated that it might be imagined that the home consumer would fare better with nationalisation, but the experience gained in the Government mines in the Saar district contradicts any such theory. In Upper Silesia, where, in 1913, the State had at its disposal 16.67 per cent. of about 44 million tons of the entire coal output, it adapted its prices, as a general rule, to those of private companies. It certainly never occurred to the Government to sell cheaper than its private competitors. Official returns show that the average value in marks of a ton of coal in the Dortmund mines in the Rhenish-Westphalian district and those of Bonn was as follows:

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Year	Dortmund (Private-owned)	Bonn (State-owned)	Average for Germany
1875	7.32	19.58	8.13
1890	7.96	9.96	7.66
1895	6.66	8.34	6.81
1900	8.53	11.15	8.84
1905	8.40	10.96	8.66
1910	9.78	11.96	9.99
1911	9.73	11.43	9.78
1912	10.96	11.63	10.52
1913	11.81	12.18	11.24

During the war the relationship between the prices remained the same. Thus the prices demanded by the Coal Syndicate and by the Saar District Board on January 1st, 1917, were as follows:

	Coal Syndicate Marks	Saar District Marks
Anthracite	17.25—18.75	17.40—20.60
Open burning coal	14.50—18.50	15.60—20.00

What is the situation which is thus revealed by this expert?

'It appears then, that in Dortmund, where most of the mines are in private hands, coal was invariably cheaper than in Bonn, where the Government, with its Saar mines, plays a leading rôle. With few exceptions, the prices asked by private companies, and, since 1894, by the Syndicate, were always lower than the average prices for all Germany, whereas those demanded by the Government were always above, and in

parts considerably above, the average prices. The Government Board actually demanded higher prices than private mining companies for engine coal, i.e. coal used in part for Government purposes.

' Notwithstanding the higher prices charged by the State-owned mines, the wages of the miners employed in those mines are lower than the wages paid to men employed in private-owned collieries. The following is a statement of the net wages in marks earned per shift in coal-mining in the Government Mining Board District of Dortmund, in Upper Silesia, and in the Saar district State mines :

Year	Dortmund (Private)	Silesia (State)	Saar (State)
1909 .....	4.49 .....	3.48 .....	3.96
1910 .....	4.51 .....	3.44 .....	3.97
1911 .....	4.69 .....	3.48 .....	4.60
1912 .....	5.30 .....	3.64 .....	4.22
1913 .....	5.36 .....	3.63 .....	4.45

State mines, moreover, do not pay in spite of low wages and high prices. We may take as an example the State mines in Westphalia.

' These mines have now been in existence for more than sixteen years, and have, accordingly, long since emerged from the first stages of development. The preamble of the Act relating to the acquisition of mining property in the chief mining district of Dortmund assumed that from 1906 onwards no more subsidies were to be granted for the development of the four double-shaft

mines contemplated, and that from 1915 onwards their entire surplus profits would exceed in amount the subsidies granted since 1902. For the three mines in question, of which the United Gladbeck Mine has two shafts, the financial results between 1903 and 1915 ought to have been as follows (in mk. 1,000) :

United Gladbeck Bergmannsglück Waltrop Total  
 +17,900 — 3,770 — 5,050 +9,080

whereas the actual results were as follows :

United Gladbeck Bergmannsglück Waltrop Total  
 —17,300 —11,500 —22,720 —51,520'

From these facts the conclusion must be drawn that the State-owned mines in Germany are less efficiently managed than those privately-owned, that they pay lower wages, charge higher prices to the consumers, and yield a lower rate of profit than mines managed by private owners.

The condition of mining in Germany during the war was described briefly in the *Arbeitgeber-Zeitung* of April 6th, 1919 :

‘ The State coal-mines of the Saar, during a long period, have paid considerably lower wages, and charged substantially higher prices for coal, than the Ruhr coal-mines. As to productivity, the outputs of State and of private coal-pits in the Ruhr district are worthy of note. With the exception of the “ Hibernia ” mining company (which did not pass into the hands of the State till 1917), the available statistics show considerable losses on all the State mines, whilst the private mines (apart from smaller individual pits)

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show satisfactory balance-sheets. This state of things should convince even the most zealous supporters of the Socialisation of mining that any attack on the free activities of employers will cause the utmost injury to workers. Only if private initiative can freely develop will it be possible (with untiring work and economy in the method of living) to improve the position of the workers and to secure once more a prosperous life for the German people.'

It was inevitable that after the war there should be a vast change in the coal-mining industry in Germany. An industrial revolution followed the political revolution in Germany, and within a few weeks of the Armistice the Westphalian miners, followed by other mining districts, repudiated all the agreements under which the industry had hitherto been conducted. The owners themselves were almost equally anxious for a change, and as a result the Weimar Republican Government in February 1919 appointed a Commission to consider the question of the Socialisation of the coal-mines. The Commission was unable to agree on the form and extent to which Socialisation should be introduced into the industry, and it was suspended. The general introduction to the Report of the Commission contained, however, the following statement, which admirably summarises the whole case against nationalisation. Although the question as to whether the efficiency of the worker was greater in the State-owned than in the private mines was not answered by the Committee, it held unanimously the view that the entire management of the mines

by the State on the ordinary bureaucratic lines would seriously interfere with their economic exploitation. Every extension of State undertakings was uneconomic, and therefore to be negatived so long as this economic activity of the State was in any way connected with its political and administrative functions, and unless the bureaucratic tradition was entirely abandoned.

'The proceedings of the Commission have shown, while admitting all the advantages of the State control of mining, such startling examples of the inadequacy of this cumbrous State organism that there cannot exist a particle of doubt as to the necessity of a radical change. The overburdening of highly-trained officials with petty duties, the objectless changes of posts, the poor salaries, almost ridiculously small as compared with those in private industries, the restrictions on freedom of action, the lack of confidence reposed in those financially responsible, the complicated system of grades, the protracted discussions of matters which could be settled in a few hours—in a word, control on the top of control—instead of personal responsibility and an incentive to initiative, these are the characteristics of this organisation, in which even the most capable and those least interested financially, as long as they remain in their posts, can only find a satisfactory sphere of work on a most restricted scale, and of which the ambition and conscientiousness of Prussian officialdom, in spite of the stimulus of private competitive enterprise, can never realise the economic significance.

' Apart from these defects, the Commission considers that the separate nationalisation of mining, while the capitalistic system is allowed to continue in other economic spheres, cannot be regarded as Socialisation, but merely as the substitution of one employer for another.'

Subsequently various attempts were made to find a solution of the problem which the coal-mines presented, but every suggestion was rejected for one reason or another. One scheme proposed to set up an incorporated body, which would operate through a Federal Council of 100 members, with an expert directing board of five. Another scheme was mainly Socialistic, but endeavoured to secure the co-operation of the employers for a number of years by a system of progressive purchases. The advantages and disadvantages of these proposals were canvassed with characteristic German thoroughness. In the end, they were rejected on the ground that the German workers would not work as well for the State as for private enterprise. It was also feared that nationalised management would be at an extreme disadvantage against the free initiative of Great Britain, and it was stated that if all the German mines were nationalised they would be swamped by huge imports of coal from England. 'At the present moment,' wrote Mr. John Murray, in *Industrial Peace*, June 1924, 'the Prussian State mines are being made over to companies, and Germany, which has been the forcing-bed of Socialist doctrine for all Europe, now copies Italy in reversing nationalisation, and notably in the coal-mines.'

What has been the experience in Russia? The

coal industry naturally suffered disorganisation during the revolution, but such information as is available as to mining conditions in that country point to the same conclusion—that the output under State ownership declines. The production of coal fell from 35.8 million tons in 1913 to 8.3 million tons for the first nine months of 1923. In 1913 the number of persons employed was 160,000, rising to 235,000 in 1916, just before the revolution. In August 1923 it amounted to only about 116,000.<sup>1</sup> Strangely enough, since nationalisation is advocated in the interest of the workers, female labour is still comparatively abundant in the Russian mines under nationalisation, and is even employed in the pits, although this is prohibited by the legislation of most countries. On July 1st, 1922, the male adult workers in Russian mines numbered 241,794, or 79.3 per cent. of the total number employed; the juvenile workers numbered 2,231, or 7.3 per cent.; the female workers 40,992, or 13.4 per cent. It will be recalled that in principle the Russian miners used to work an eight-hour day, *but by a decree of February 18th, 1920, a ten-hour day was imposed, and severe penalties were enacted for striking.* The consumer as well as the worker has suffered. In June 1923 the cost of a pood of Russian coal was about 0.25 gold rouble. This corresponds with a price of about 34s. per ton, approximately twice that of English coal. In no country are miners so badly off as in Russia, where the mines have been nationalised; consumers also have suffered grievously, owing to the general state of inefficiency into which the industry has fallen. Nationalisation has

<sup>1</sup> *Economic Review*, May 9th, 1924.

benefited none, but has contributed to a reduction in the output of coal and an increase in price, with the result that every industry has been injured. The State ownership of the mines in Russia has proved to be a national disaster of the first magnitude.

The only other countries where nationalisation has been tried, even on a comparatively small scale, are Australia and New Zealand. In Australia the Labour Government in power from the end of 1910 to 1916 were pledged to nationalising the coal industry; although they established some minor undertakings, and even, under pressure, sanctioned a State coal-mine for the use of the railways, they have never attempted to nationalise the coal-mines. The New South Wales Government owned a mine at Lithgow, but this was handed over to the Railway Commissioners in 1917, and its output is used exclusively for the railways. There is a State mine at Morwell, in Victoria, and the Electricity Commissioners are engaged in opening up its deposits, which will be utilised for the generation of electricity for Melbourne and other towns in Victoria within economic distance.

State coal mines have been more generally developed in Queensland than in any of the other Australian States. The latest report of the Auditor-General for Queensland for the year ended June 30th, 1923, states that there are three State coal-mines in Queensland, Baralaba, Styx River, and Bowen, and that the total indebtedness of these mines to the public Treasury was £160,301. The net loss on the operations of the mines was £1,275. The Bowen mine showed a profit of

£5,490, but there was a loss on the Baralaba of £1,860, and on the Styx of £4,905. Royalties had been paid on the coal produced at Bowen, but not in respect of the coal produced at Baralaba and Styx. On November 14th, 1923, the men at the Baralaba colliery went on strike, though the strike was against the community. This mine, according to the Australian correspondent of the *Colliery Guardian*, easily holds the record for the number of strikes that have taken place there during its comparatively short term of existence.

In New Zealand the State owns coal-mines in the Grey Field of the west-coast districts. These mines were originally opened up by the Mines Department to supply cheaper coal to the general public, and to other State Departments, mainly railways. Coal supply depôts were opened in the main towns to retail coal from the State mines, but most of these are now closed, and the output of the mines goes chiefly for bunker coal and to gas-works. It cannot be said, the New Zealand correspondent of the *Iron and Coal Trades Review* has recorded, that these State mines have been profitable to the country as a whole. As a matter of fact, they have been a source of constant anxiety to the New Zealand Government, owing to the continued agitation and unrest for which they have been chiefly conspicuous.

Apart from the general arguments against nationalisation, there are special objections to the nationalisation of the coal-mines of Great Britain, owing to the peculiar characteristics of the industry. Of all the great trades, it is the least suitable to an experiment of this description. It may be described

as the basis of all other industries, for all industries depend more or less on coal, and need it at a low price if they are to hold their own in foreign markets, and any disturbance in the mining industry is at once reflected in all other dependent industries. It is a highly speculative industry, involving the use of large capital expenditure over a number of years, with a problematical return. Land has to be prospected and leased, borings have to be made and shafts sunk, expensive plant and machinery installed and the mines actually worked for a number of years, before there can be any return on capital.

Another objection to the nationalisation of the mines is that a great proportion of the output is exported. The export trade is a highly complicated, as well as a highly competitive, business, demanding skill and experience which can only be found among men who have spent their lives in the industry. Is it to be presumed that a number of persons, however capable, sitting in a Government office, with no direct interest in any particular 'deal,' would possess the necessary ability for carrying on this particular department of the coal industry in keen rivalry with other coal-producing countries? The exporter finds the foreign buyer, arranges conditions of sales, tonnage and sea freight, the discharge of the coal at the port of destination, and is responsible for the import duties, sampling and analysis of the coal. He finds the money for the long credit which is demanded, takes the risk of the foreign buyers' solvency, and has to be acquainted with the variations in currency which occur between the trading nations.<sup>1</sup> It must be

<sup>1</sup> Lord Gainford before the Sankey Commission.

obvious that a State Department would be quite incapable of dealing quickly and promptly with these complicated and constantly changing conditions. Yet promptitude is one of the essentials of the business, and large orders might well be lost while a Government Department was making up its mind on any, or all, of these points.

This raises the question whether the State would be able to attract the best type of brains to manage State-owned coal-mines. An instance of the kind of difficulty that might arise in a department charged with the selling of coal and its by-products was given by Mr. Samuel Roberts in the House of Commons in moving the rejection of the Nationalisation of Mines Bill in May, 1924. 'A little time ago,' he stated, 'coke was in demand for export at 30s. per ton or more. The makers of coke continued to sell it, and entered into new contracts to supply the blast furnaces in this country at 23s. per ton. They were, therefore, accepting a lower price quite rightly, in order to keep their customers going. They were refusing the larger price from the Continent. This was a perfectly sound business proposition, but what would an official have done? He would have been blamed for not getting the best price, and probably would have been accused of favouring business friends in this country, and of corruption if he had done what was actually done. You therefore put an official in a dilemma, which it is not fair to put upon him, because whatever he does he is subject to blame.'

In his evidence before the Sankey Commission Lord Gainford laid down the inevitable results that would follow nationalisation of the mines.

(1) An increase in the cost of production, which would raise the price of coal at home and for export.

(2) As a result, many industries depending on coal at home would collapse.

(3) Increased cost of export coal would damage the shipping industry, and add to the price of food and other essential commodities.

As against these results, no benefits either to the nation or to the industry could be anticipated. There would be no cessation of unrest and agitation in the mines. In the House of Commons on May 16th, 1924, Sir Beddoe Rees quoted from a speech by Mr. Duncan Graham, M.P. for Hamilton. 'If the mines,' said Mr. Graham, 'become the property of the nation, the miners would have need to be more determined than ever in their policy and more vigorous in their Trade Union organisation, because instead of fighting local employers they would be fighting the Government.'

While it is certain that the price of coal to the consumer would be increased, there is no evidence that there would be fewer accidents in the mines than there are to-day, or that a Mining Department would be a better employer than a private company. 'The chief factor,' said Professor Robert Scott before the Sankey Commission, 'which prevented the Saar mines affording an adequate return on the capital was to be found in the various elements connected with Labour'; and he quoted the opinion of Professor Weiss that 'in Prussia the State has shown itself the hardest and least indulgent of masters.' In one of the Fabian tracts Mr. Sidney Webb, President of the Board of Trade, stated that: 'If any man wants freedom to work or not to

work just as he likes, he had better emigrate to Robinson Crusoe's island, or else become a millionaire. To suppose that the industrial affairs of a complicated industrial State can be run without strict subordination and discipline, without obedience to orders and without adequate lines for maintenance, is to talk, not of Socialism, but of Anarchism.'

The nationalisation of mines stands in the forefront of the Socialists' programme, but the movement would continue until it embraced other industries. 'We are only beginning with the mines,' said Mr. Robert Smillie at the Central Hall on November 9th, 1919. The miners' leaders are, in fact, advocating the nationalisation of the collieries, because they regard that step as a preliminary to the establishment of the Socialist State, in which all industries are to be owned and controlled by the Government after the expropriation of the present owners on terms which the Socialists would dictate.

In the light of the experiences of nationalisation in Germany, Russia and elsewhere, can it be argued that the nationalisation of the coal-mines of Great Britain would lead to an increase of efficiency in production of coal, and consequently to a lowering of the price to the consumer? The development of the English, Welsh and Scottish coal-mines constitutes one of the most astonishing features of our industrial expansion during the nineteenth and twentieth centuries. In 1820 the production of coal in this country was approximately 10 million tons a year; by 1850 it had increased to 54 million tons; by 1873 to 127 million tons, and in 1913 it reached its highest point at 287 million tons. That is to say, there was an increase of 123 per cent. in

the 40 years from 1873 to 1913. Since 1913 the conditions have been abnormal, and do not afford a fair basis of comparison.

How have the workers fared? In 1851 there were 200,000 miners and others, engaged in and around the pits; in 1873 the number was 285,000; and in 1913 this number had increased to 1,118,000. That is an increase of over 200 per cent. in the number of people employed in this industry in the years between 1873 and 1913 and has been due to the sinking of a vast amount of capital in developing the mines. As the number of miners has increased, the individual wage has risen, with a corresponding improvement in living conditions in all the mining districts.

Up to the year 1850 practically all the coal produced in this country was absorbed by our industries or used for domestic consumption. But under private management production afterwards increased so rapidly that the colliery owners had to find new markets for their surplus output. In 1850 they exported only 3 million tons; in 1873 the quantity had gone up to 16 million tons; and in 1913 the record quantity was reached with 98 million tons—all of it sold in open competition in foreign markets. This export trade in coal contributed in large measure to keep down the cost of living, and if this trade were injured the price of food and other necessities of life would rise.

How, it may be asked, has private enterprise grappled with the peculiar problems of coal-mining? 'With regard to modern collieries and appliances, ours are the most efficient in the world. Even as regards housing, the coal trade in recent years has

done more than any other trade in housing its own people.'<sup>1</sup> One of the most serious problems in the development of collieries is the flooding of the mines by water. In this respect South Yorkshire affords, as Mr. F. Parker Rhodes stated in evidence before the Sankey Commission, a valuable illustration of the benefits of private enterprise. After much investigation and research, a line of action was decided upon. In order to get the best results over a wide area, 16 or 17 large collieries combined for this purpose. They purchased the whole of Earl Fitzwilliam's system of water-levels and pumping plant, and prepared a plan for obtaining from Parliament the necessary powers for extending operations to protect the whole of the South Yorkshire district for all time. Private initiative has also gone far in the direction of co-ordinating sales and purchases of stores by collective action, instead of individual action, as before. There has also been great development in the creation of great central power stations to generate power, and so avoid waste of fuel consumption. In South Yorkshire, collieries have erected power stations, and are supplying large consumers in the neighbourhood with cheap electricity and gas. In spite of this spirit of enterprise, the profits derived from the coal-mines in the past, averaged over a number of years, have not been extravagant, and have certainly not been higher than the profits derived from other industries of a less speculative character.

The Report of the Acquisition and Valuation of Land Committee supplied striking testimony to the value of private enterprise in this industry, in which

<sup>1</sup> Mr. Samuel Roberts, *Hansard*, May 16th, 1914, p. 1729.

ample capital, long vision, courage and scientific knowledge are essential to success.

‘For many years it was thought that the coal seams in the Nottinghamshire, Derbyshire and Yorkshire coal-fields either did not continue east under the Permian limestone which extends from the city of Nottingham into the county of Durham, or that the general eastward dip of the strata would carry them to a depth too great for profitable mining. So late, indeed, as the middle of last century, coal-mining was restricted to the region lying west of the Permian limestone.

‘In 1854 the then Duke of Newcastle began to sink two shafts at Shireoaks, some seven miles to the east of any working at that time existing. No bore holes were put down as a preliminary, since in those days boring had never been carried out to any great depth in this country owing to the somewhat primitive nature of boring appliances. Consequently, at the time, this enterprise was a gigantic speculation, but early in 1859 the valuable top hard coal was cut at a depth of 1,530 feet, and proved to be 1 foot 10 inches in thickness. At the present day most of the chief collieries in Nottinghamshire are situated within the outcrop of the Permian limestone.’

The history of the development of the Horden Collieries Limited furnishes a further example of what private enterprise has accomplished in the development of coal-mines. The company was formed in 1900, and an appeal for capital was made to the public. The flotation was severely criticised

as being highly speculative, and, as a result, only £45,000, payable over five years, was subscribed, and the remainder of the capital—£250,000 in all—was raised by the directors and their friends. The share capital now stands at £983,310, the debenture stock at £300,000, and loans at £139,000. The difficulties which had to be surmounted were enormous. Three shafts were sunk at the Horden colliery, and water to the extent of 10,000 gallons per minute had to be pumped during this operation. The shafts had then to be 'tubbed' by upwards of 5,000 tons of cast iron segments to keep out the water and the running sand. It was six years before the first 1,000 tons per day was drawn. Since then 3,750 tons have been drawn in one day from Horden colliery alone. Would any Government have dared to undertake such a speculative venture which has found work for a large number of men?

Shotton Colliery provides another illustration of private enterprise. It was re-opened fifteen years ago, and thousands of pounds were spent in driving a main way through stone to take the place of the five old main ways in the various seams. The benefit derived from all this expenditure is only now beginning to be reaped. The same story is to be told of the colliery at Blackhall, where two shafts were sunk which involved the pumping of 15,000 gallons of water for many weeks, until the water was tubbed off. Electrical pumps and winding engines were installed at great expense. The sinking was commenced in 1908, and it was not until 1915 that 1,000 tons per day were first drawn. As a consequence of this enterprise, a colliery has been developed which is capable of drawing 4,000 tons

a day. It is the largest purely electrical driving colliery in the country.

Another case is that of the Thorne Colliery, which Pease & Partners Limited have developed in an entirely new district nine miles east of Doncaster. After 15 years' work the famous Barnsley seam was reached on August 19th, 1924. At a depth of 921½ yards the seam was tapped, and it is claimed that the mine is the deepest in Yorkshire. That this feat had been accomplished after overcoming enormous difficulties during a number of years is the highest possible tribute of what can be done under capable private enterprise. Messrs. Pease & Partners Limited acquired the mineral rights for this area from a private syndicate. A start was made with the sinking in November 1909. By the end of the following January the two shafts had been carried through the running sand. The work was then kept standing for six months for the erection of the head gear necessary before sinking through the new red sandstone. It was when this water-bearing strata was reached that the serious difficulties of the sinkers commenced. Four powerful pumps were installed, and water had to be dealt with up to 9,000 gallons per minute. By December 1911 a depth of 180 yards in one shaft and 160 in the other was reached. Up to June 1915, £25,000 had already been expended, and during the war it was found impossible to proceed with the undertaking.

Work was resumed in 1919, and went forward without further interruption. The first operation was to pump out water which had collected in the shafts. Bore-holes were then put down from these levels, through which the ground was treated with

cement to form a barrier against the water. In August 1924 coal was at length reached, and the work of extracting it begun. 'Here is a lesson in determination and perseverance,' the *Yorkshire Post* observed, 'which a commercial nation may well note with some pride. The successful result now achieved is a timely confirmation of the belief that only in a system of private enterprise is it possible to secure the best from the material sources of wealth.' Messrs. Pease & Partners took a considerable and prolonged risk, in which a sum of considerable magnitude was involved. What would have happened under a system of nationalised mining? 'Could any bureaucratic official,' this journal has enquired, 'have persuaded his Ministers to face for fifteen years the storms of criticism, the expressions of hostile doubt, the denunciations of unjustified expenditure of public money, on a speculative enterprise?' Under any system of nationalised control, subject to Parliamentary interference, such enterprise, even if it had been proceeded with, would, as this newspaper affirmed, never have been brought to a successful issue. Private ownership and enterprise have built up the British coal industry. Owners have taken risks that no Government Department would take, or would be justified in taking. They have applied every improved scientific and mechanical device to increase the efficiency of the industry and the cheapness of its product, and to provide for the greater safety and welfare of the workers.

When the Socialist Party talks of 'the nationalisation of the mines' it really means 'the mines for the miners,' without regard to the interest

of the nation. 'Miners! Organise, and the industry will be yours,' declared Messrs. Robert Smillie, M.P., and Duncan Graham, M.P., in a poster issued in 1923. The intention of this slogan was expressed in the Nationalisation of Mines and Minerals Bills, which was introduced into the House of Commons early in 1924. Under this Bill a Mining Council was to be set up, consisting of a chairman and 20 members. The chairman was to be appointed by the Crown, and also 10 members of the Mining Council. The other 10 members were to be appointed by the Miners' Federation of Great Britain. The District Councils and Pit Committees were also to be set up with the same proportion of representation. A Mines Purchase Commission was to be established, which was to have upon it three representatives of the Miners' Federation and three representatives of the Mining Association. It may be assumed that under a Labour Socialist Government the Crown nominees on the Council would reflect the political opinions of the administration, if not of the miners. The Council would thus have a majority representing the Socialist view, and probably the even narrower point of view of the miners.

On the second reading of the Bill in the House of Commons on May 16th, 1924, Sir Douglas Hogg briefly summarised the provisions of the Bill in the following terms':

'I would like to summarise what this Bill does, which, I submit, is absolutely wrong. First of all, it allows the Miners' Federation—which means, of course, the miners—to fix their own wages and

their own hours at the expense of the State ; secondly, it enables them, when they have done that, to fix the prices which the unfortunate consumer is to be obliged to pay at home ; thirdly, it enables them, without any compensation, to destroy the whole retail distributing trade, and to run in competition at the expense of the State ; fourthly, it enables them to deal with the export trade in any way they like ; fifthly, it enables them to interfere with all the other allied trades. They can interfere with the railways. The railways have to do whatever the Mining Council deem necessary. They can interfere with the shipping trade. All the ships used in all the mining industries can be taken over by the Mining Council. They can interfere with all the other industries which are allied to coal-mines, iron-mines, or any other form of mining, because the Mining Council can collar the lot, if only they choose to say they regard them as a reasonable ancillary, or belonging to one or the other undertakings.

‘ When they have done all these things, they are doing them, not at their own risk and expense, but at the risk and expense of the taxpayers. Whatever inefficiency there may be in the management of mines in the future, whatever waste and extravagance there may be in their administration, whatever political pressure may induce the Mining Council to do, in the way of keeping open uneconomical and expensive mines, whatever loss may be sustained by ruinous experiments, in retail trade or in export trade, by people who have no experience of it—all these matters are borne,

not by the Miners' Federation, who only take all the wages that the industry can give, but they are thrown upon the taxpayers of this country, who are asked to foot the bill, without gaining any advantage.'

In the same debate Mr. Lloyd George exposed the whole scheme for placing the mines, and all who use coal, at the mercy of the miners. The miners, it was specifically provided, were to retain the right to strike, and the officials of the Council could also strike against a decision of the Council of which they were members.

'That is the new Socialism! In order to make it clear that the 10 men nominated by the Miners' Federation or by the Government of the day shall not be altogether independent, there is power for the Miners' Federation to remove any one of them at any moment. In the words of the Bill—and they are very significant words, and I think it is worth the while of the House of Commons to realise what the new principles are—Clause 1, the very first clause, the basic clause, says: "The members of the Mining Council, other than the president, shall be appointed for five years . . . provided that His Majesty's Government or the association known as the Miners' Federation of Great Britain respectively shall have power to remove any person appointed by them."'

Under any proposal for nationalisation one of the most important considerations is the compensation

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to be paid to those whose property is to be transferred to the State. As regards the owners of minerals, the Bill proposed absolute confiscation, without any compensation whatever. The theory that the owner of property containing minerals has no moral right to the benefit of those minerals rests on no surer foundation than a similar claim in respect of agricultural lands of a greater fertility than lands in some other part of the country. The legal title cannot be called in question, and if once the precedent were established of confiscating one kind of property because it is deemed to be—by the Socialistic Government temporarily in power—for the benefit of the community, there is no reason why the process should not be extended to the confiscation of land, houses and, indeed, of any other kind of property. It is, of course, just this precedent that the Socialists desire to establish for the predatory purposes which they entertain towards other industries.

As regards the mines themselves, as distinct from the minerals, the Bill proposed compensation on the following terms :

‘ In no case shall the maximum purchase price, exclusive of associated properties, be taken to be more than a capital sum equal to 12s. per ton on one year’s output, when 100,000 tons or less have been raised per annum on the average during the five years preceding August 4th, 1914, or a capital sum equal to 10s. per ton on one year’s output when more than 100,000 tons have been raised per annum on the average during such five years.’

It was stated in evidence by Mr. Evan Williams, President of the Mining Association, before the recent Court of Enquiry, and the fact was not disputed, that the capital cost of sinking a modern coal-mine is 20s. per ton of the ultimate maximum output.

What justification is there for the demand for the nationalisation of the mines? Sir Richard Redmayne, late Chief Inspector of Mines, stated in the précis of his evidence to the Sankey Commission on June 6th, 1919, that 'the chief impression left by an historical review of coal-mining in the United Kingdom is the enormous progress made during the last two or three generations in every respect except the return made to capital.' Much prejudice has been exhibited against the mine-owners on account of the bad housing conditions of the miners in some districts. Miners, however, are no worse housed than other workers in the same position, and as a matter of fact the mine-owners have taken upon themselves a burden which few other classes of employers have taken, and provided accommodation for about one-third of the mining population. Those who are unfamiliar with the peculiar outlook of the miner may be reminded that miners have a deeply rooted objection to pay more than a very small rent, and that they willingly live in one-roomed and two-roomed houses when bigger houses are available, against which they appear to have a strong prejudice. The suggestion that the housing of the miner would be better under nationalisation or public control of the coal-mines has been exposed by Mr. Sidney Webb. In his evidence before the Commission he stated :

“ No business considerations will ever warrant each colliery enterprise in erecting decent cottages near each pit, many of which may be expected to be worked out within a short time. The same reasons apply to prevent prudent rural and urban district councils taking action on any considerable scale, nor is it fair to throw the whole cost of housing such a special population on the rate-payers.”

“ Do you suggest that the mining population is worse housed than any other industrial population at the present time ? ”

“ Really this is a very difficult question to form an opinion upon. After all, it is like the curate’s egg—it is not all over alike. I certainly think that the miners of Lanarkshire are worse housed on the evidence than any other section of the population. Of course, that is probably not true of Durham and Yorkshire, I think. It varies.”

“ On this question of housing you would not suggest that it is possible to divide the housing of the miners from the general housing of the country ? It must go through together in a general scheme ? ”

“ Yes, certainly ; you can only deal more or less with the mining districts.”

The colliery owners are grappling with the housing problem as far as they can, in a spirit of broad humanity, which ignores narrow economic considerations, and under the Miners’ Welfare Fund, which was constituted under Section 20 of the Mining Industry Act, 1920, and is derived from a levy of one penny per ton of the output of every

coal-mine, good work is being done in ameliorating the conditions of life in the mining districts. The objects of the fund are very wide. They include such purposes connected with the social well-being, recreation and conditions of living of workers in or about coal-mines, and with mining education and research, as the Board of Trade may approve. The broad purpose of the fund is, indeed, to provide the miner and his family with fuller opportunities for recreation, both in body and mind, with a brighter social life, and generally with a healthier and sweeter environment than the nature of his occupation would otherwise offer to him.

What is required by the mining industry is not an experiment in nationalisation at the risk of the nation and British industries, but peace—freedom from Government interference and freedom also from political agitation. The experience of Germany, Russia and other countries which have tried, on varying scales, nationalisation, suggests that any such policy in this country would involve the ruin of this industry, with upwards of a million workers, as well as of the other industries dependent upon it for fuel, while placing a heavy burden on domestic consumers generally.

## CHAPTER V

### SHIPPING UNDER THE STATE

GREAT BRITAIN is an island, and consequently dependent on the seas for all its communications with the rest of the world. It has upwards of four times as large a population as it had at the beginning of last century, and can neither feed itself nor live by 'taking in its own washing.' Its foreign trade, carried in ships, is vital to its existence, for this reason. Even if we turned all our available land to growing corn we could not feed our population of 44 millions ; nor could we find markets here for the manufactures that are produced in this country. We must import the bulk of our food, all 'luxuries' like tea, sugar and tobacco, and most of our raw materials. We must export coal and manufactures ; with these exports we pay for our food and other things sent to us by overseas countries.

We import more than we export, and have done so for many years ; that is, we buy more food, raw materials and other things, than we can pay for in goods—manufactures or coal. This adverse balance of trade would soon exhaust our credit and leave us bankrupt were it not that we have another means of paying for our purchases besides what are known as 'visible exports.' For centuries our merchant fleet has been predominant on

the seas, and we have developed the finest ocean-carrying facilities in the world. The services which our shipping renders to other countries constitute no small part of our 'invisible exports,' and help to redress the unfavourable trade balance. The contribution of the shipping industry to 'invisible exports' is a matter of estimate. The Board of Trade—perhaps taking an over-optimistic view—put it at £130,000,000 in 1924—that is, the gross earnings of shipping, less payments in oversea ports for bunkers, stores, port dues and other disbursements. Other 'invisible exports' are banking and other services and interest on investments overseas, which were estimated at £240,000,000.

Without ships, therefore, we cannot balance our inward and outward trade, or *pay for our food*. The existence of both the individual and the State depends upon ships. Shipping is our most essential industry. If coal and iron and steel are the metals from which our 'key' industries are cast, shipping is the locksmith upon whom depends the making of the keys which unlock the gate to prosperity. Any such experiment as nationalising shipping might bring us face to face with starvation.

British maritime supremacy rests upon two things—sea-sense and freedom to adventure overseas. The British race breeds not only sailors, but those who can trade successfully, manage ships efficiently—usually called 'merchants' and 'shipowners.'\* It

<sup>1</sup> "To avoid misconception, it must be added that this sum is not the expression of, or a measure of, the profits (if any) earned by shipowners during the year."—*Board of Trade Journal*.

\* The shipowner is really the ship manager, for practically all ships belong to limited liability companies, and the dividends earned in prosperous years are distributed among tens of thousands of shareholders, most of them persons of comparatively modest means.

does so naturally and without effort. There have been, fortunately, few attempts by the British Government to trammel merchants and shipowners and still less to substitute clerks of State Departments for free men in the control of these hazardous enterprises. The merchant and the shipowner select themselves by proving their capacity, and no known system of civil service examination could replace this ordeal by trade, which they have to face to-day. Under this system of private enterprise, we carried half the trade of the world in our ships before the war, and if shipping is not interfered with by the State, the industry will again beat all comers in fair competition. That is so because, in the words of Homer, the poet of the sea, 'strong necessity has hold of us.' Parallel with sea-sense goes the private enterprise which has created our markets. It is in the markets of the world—centred in London, with its great insurance institution, Lloyd's, its shipping classification society, Lloyd's Register of Shipping, and its bargaining mart, the Baltic Exchange, and its banks—that our sea-sense finds scope.

What is necessary in war, when economic laws are suspended and too high a price cannot be paid for victory, is not always expedient in peace. The Ministry of Shipping was a remarkable success—under war conditions. Its success was due to the fact that it was controlled and largely staffed by the men familiar with every aspect of the shipping business. Leading British shipowners, in the greatest emergency which has ever confronted this country, continued to run their businesses in the national interest from Whitehall, with the same

efficiency that they were accustomed to exhibit in their own offices, civil servants assisting them in the administration. The rest of the industry backed them up whole-heartedly. All the knowledge and experience of all the shipowners were placed at the service of the State, and the country weathered the submarine campaign.

A Civil Service which has administered the public business of a great Empire for 150 years scarcely needs an expression of the nation's respect for the support which was given to Lord Maclay and the other shipowners who worked at the Ministry of Shipping. They are, however, neither trained to nor concerned with business. And the Ministry of Shipping was concerned with business—under war conditions, it is true, but still essentially business. It was concerned with one of the most difficult kinds of business, where long experience and tradition make just the difference between success and failure. No ordinary Government department could have dealt successfully with the war problems of shipping, and so fed the nation, supplied the fighting forces with all they required, and succoured the Allies.

Nevertheless, the theorists who advocate State Socialism saw in the Ministry of Shipping only a Government department. In its success they found a weapon forged to their hand. They seized it and set to work. Plans were hurriedly prepared for the nationalisation of shipping. Ministers, deceived by the success achieved under war conditions, and forgetful of the shipowners who had been responsible for that success, lent attentive ears to the chorus of praise, and the Cabinet even considered the

matter. The country had a narrow escape from ruin.

There is no State shipping in this country, because reason prevailed. The plans were abandoned, since the more closely they were looked into the less attractive they appeared. In 1917 the Government had appointed a Committee on Shipping and Shipbuilding, the members of which were of wide experience, to advise them upon the means of reconstruction after the war. The Committee reported in 1918. Their report, which had considerable influence upon public opinion, contained the following statements :

‘ The first and fundamental condition of reconstruction is the early removal from shipping of Government operation and control. Such control is not only alien to the British genius, but always tends to paralyse individual effort. Especially is this so in an industry like shipping, which is everywhere exposed to international competition, and depends for success on elasticity and freedom from restrictions. Private enterprise, which has often saved the country in the past, built up the splendid mercantile marine, without which this war could not have been carried on ; and it is our conviction that any departure from a principle which has been of such material value to us would be a dangerous experiment, and a blunder of the worst kind.’

There is something better even than the opinions of the most expert committee for those who wish

to test for themselves the truth of the assertion that State shipping will not pay. There are facts. State shipping has been tried, not only in foreign countries, but in our own Empire. The result in every case has been a heavy loss, which has had to be made good out of taxes levied on the general community and incidentally on the private ship-owner, with whom the State shipping competes.

AUSTRALIA.—The Australian Government decided to operate ships in 1916. The published accounts of the Commonwealth Government Line of Steamers show a total operating loss to June 30th, 1923, of £2,645,761, borne by a population of only 5 or 6 millions. The value of the vessels was then written down from £12,766,588 to £4,708,150, a depreciation of rather more than eight millions—capital lost beyond all hope of recovery. As a result of their shipping losses, the Australian Government appointed a board of business management to run their ships for them, thus hoping to find a way of escape from their increasing financial embarrassment.

Two vessels, the *Fordsdale* and the *Ferndale*, were recently built by the Australian Government. It was pointed out in the Commonwealth House of Representatives that 'the materials for the boats were purchased when prices were at their greatest height, and the cost for each would be £100,000 less if the materials were purchased to-day.' The cost of the *Fordsdale* was about £821,000, in addition to £37,500 for administrative expenses. That of the *Ferndale* was £790,000, plus £25,000. About £500,000 was written off each of the vessels before they were handed over to the new board.

**TASMANIA.**—The Tasmanian Government bought 5 steamers during the boom. The Labour Government of Tasmania decided in July 1924 to abolish the State Shipping Department owing to the heavy losses incurred. According to official returns, these amounted to £81,782 in two years, though the experiment was, as has been indicated, on a very small scale.

**CANADA.**—The Canadian Government entered the shipping industry in 1919. From the published accounts of the Canadian Government Merchant Marine for the year ending December 31st, 1923, the total deficit on Government shipping on December 31st, 1922, was \$18,249,365 (£4,110,000). By December 31st, 1923, the total deficit had increased to \$27,641,582 (£6,225,000). The Government were then working 60 vessels of a dead weight tonnage of 362,844.

Mr. Mackenzie King, the Canadian Prime Minister, referring to this adventure in State shipping, declared in January, 1925 : 'I do not hesitate to say that a capital expenditure of over \$70,000,000 [£14,000,000] on the construction of 65 ships for the Government Merchant Marine, upon which construction, except in two instances, was commenced after the war ended, was as wilful a waste of public money as any Government of this or any other country was ever guilty of.'

Among foreign countries, by far the greatest experiment in State shipping has been that of America. Before passing to this it may, however, be interesting to record the experience of other countries.

FRANCE.—France entered upon a bold experiment, with deplorable results. In his report for 1923 the Commercial Counsellor to the British Embassy in Paris stated that 'The State Merchant Fleet, for which vessels were constructed both at home and in British and American yards, proved a costly undertaking. From the accounts of the fleet which is now being wound up, a loss is shown of Frs. 1,700,000,000 on purchase and construction, and one of Frs. 600,000,000 on working. Most of those vessels of the fleet, which were still seaworthy, were purchased in 1921 by a syndicate of French shipowners at the price of about Frs. 400 per ton. The total losses incurred since the beginning of the war amount to Frs. 2,648,000,000.'

BRAZIL.—Brazil was one of the first countries to experiment in State shipping. The Brazilian Government recently invited a British Commission of Experts to investigate and advise them upon the state of their national finances. In the report submitted by this Commission, it is pointed out that the two most important enterprises in which the Brazilian Government is engaged—the Central Railway and the Lloyd Brasileiro Steamship Company—have been conducted at a loss. The Commission urge the Government to dispose of federal railways and shipping companies. They point out that, if sold or leased, these undertakings would produce a considerable sum of money, which would go to reduce the existing liabilities of the Government, and, by avoiding fresh borrowings, would improve the position of the Exchequer to the extent of the sums now annually required to make good the loss.

**PORtUGAL.**—The Consul and Commercial Secretary to H.M. Legation at Lisbon in his report for 1923, recorded that 'The experiment of running the confiscated ex-German ships as a State line proved a disastrous failure, and, after a public scandal, the Transportes Maritimos de Estado, which had been specially formed to administer the line, was done away with at the end of 1921. Its place was taken by a Liquidation Commission, instructed to settle the liabilities incurred by the defunct department, several claims, mostly French, being then unsettled. Attempts by the Commission to sell the ships as a fleet were unsuccessful, and in December Señor Sunha Leal presented a Bill providing for their auction singly. About 20 out of a total of 41 were then under temporary charter to private firms. The remainder for many months occupied valuable quay space in the port of Lisbon.'

**THE UNITED STATES.**—The losses of British Dominions and foreign countries appear insignificant compared with those of the United States. History affords no case comparable with the American effort to establish a merchant marine. The total value of all ocean-going ships in the world before the war probably did not exceed £500,000,000. A similar fleet to-day would be probably worth £700,000,000, owing to the increased cost of ship construction. Bearing in mind these figures, some conception can be formed of the disaster which has fallen on the American taxpayers owing to their decision to establish a State merchant fleet. The United States Treasury has spent since 1916 over \$3,500,000,000 (£790,000,000) on the construction and operation of sea-going ships; for that sum the

Americans could have bought all the sea-going ships in the world before the war, as well as a good many of those built since. The U.S. Government have incurred operating losses amounting to \$152,818,556<sup>1</sup> (£34,000,000 at current rate of exchange). They have consequently incurred a total expenditure of \$3,653,000,000 (£824,000,000)—almost enough to wipe out the whole of the British debt to America. All this money has had to be found by the American taxpayer, and he has got absolutely nothing for it. For the United States Government has failed to establish an American merchant marine, as required by American law. Of 1,300 ships, 900 are idle, including 500 which are only fit for the shipbreaker's yard, and 400 are running at a loss; so that even of the available fleet 50 per cent. are out of commission, and may never be used. The remainder is rather a liability than an asset. And the waste of money is still going on. The Report of the House Committee on the Appropriation Bill for the fiscal year 1924-25 estimated the loss for that year as not less than \$30,000,000 (£6,750,000). The average loss on every voyage of each cargo vessel is \$25,000 (£5,600), and the annual loss can only be reduced from \$50,000,000 (£11,250,000) to \$30,000,000 (£6,750,000) by the reduction of the services and the most stringent economies in all directions.

None of these figures takes account of interest on the capital invested or the depreciation of the ships. These are very heavy items in a shipowning business. In effect what it comes to is that the operators in the

<sup>1</sup> Taking January-July 1922, for which figures are not available, as \$25,000,000.

United States of the State ships have had a large number of vessels placed at their disposal as a gift, and, having been told that no provision need be made for their replacement owing to old age, have nevertheless made no profits, but only heavy losses.

There appears, moreover, to be no escape from this disastrous enterprise. By an Act of Congress the Government-owned services must be maintained until they can be disposed of to private citizens. Senator Ransdell, the head of the National Merchant Marine Association, has lucidly pointed out that direct Government operation can only mean 'the elimination of the aid of American enterprise through practical shipping men, and this in turn must eliminate the chief source for the sale of Government ships, and will necessitate the continuance of Government operation until the staggering toll of losses causes Congress to withhold further appropriation from the National Treasury.' Many attempts have been made to sell the Government fleet to private enterprise. None has succeeded. On March 14th, 1924, the Shipping Board put the entire fleet of 1,336 vessels up to auction, but without result. No one would buy the ships. The parting advice of Mr. Albert Lasker, on retiring from the chairmanship of the Board in 1923, was that the Government should create 18 subsidiary corporations, to work 250 ships in commission and 200 in reserve and scrap the rest, but nothing came of the suggestion.

None of the countries which to-day possess State merchant fleets went into shipping in cold blood. Australia bought ships to fill the places of the British vessels withdrawn in 1915 from the Pacific

for war services in European waters and the Atlantic. Tasmania was tempted by the shipping boom which the war produced when the submarine had so disastrously reduced the shipping available for trading purposes. Canada also went into shipping because of the experiences of war. America, on the urgent advice of the Allies, built ships originally to fight the German submarine and to transport her armies to Europe; but after hostilities had ended, she continued to do so with other objects.

Why did construction continue on so huge a scale after the war need ceased? It was partly because of necessity, since contracts had been entered into; but mainly because it was represented to the citizens of the United States that their road to the markets of the world was always liable to be blocked as long as they employed foreign ships. Their experience of war taught them that goods, which were not required for war, could not be sold because there were no ships to carry them. In this way national alarm was occasioned and a cry arose for an American Merchantile Marine. These fears were based on imperfect knowledge of the shipping industry. If the United States had possessed a great merchant fleet in the war, the belligerent world would still have been short of dollars and would have been unable to buy goods except those which it needed to defeat the Central Powers. The exports of America are, moreover, the imports of some other country and, in the last resort, it is the buyer who decides whether he will buy at all and what and where he can afford to buy. The cry of the United States for merchant ships ignored another important

economic fact. An exporter, even a rich exporter, wants to be paid, and he must accept payment in the coin or goods or services which the importer can tender. It is no use the Americans asking for payment in gold when they already own the world's effective stock of gold. The United States will not take payment in goods—at all events she has raised her tariff wall since the war to prevent importers paying her in goods. There remain services. If she refuses also to be paid in services, such, for instance, as shipping, the importer will find that he must buy elsewhere. That is the simple logic of the position of the United States in relation to shipping.

If, when the war ended, the State's ships had been offered for sale to the highest bidders, no matter from where they came, they would have realised, according to Pres. James A. Farrell, of the United States Steel Corporation, at least \$800,000,000 (£180,000,000) above their value to-day. The opportunity was lost. A total of 236 ships was sold in 1923 for scrapping at a price of \$750,000 (£63,500)—about what it cost to construct one of them, without mentioning the cost of upkeep while they were moored idle in the James River for several years. Seven ships of the *President* type were subsequently sold to the Dollar Line at \$550,000 (£125,000) each. They cost \$30,000,000 (£6,750,000) to build.

How does a Government office run shipping? Sir Arthur Cocks, the Treasurer of New South Wales, has justified the publicity given to the Australian losses on State shipping in the following words:

' My object in having this statement prepared is to write in red letters *one of the causes of high taxation to-day*. The great adventure has been undertaken and failed. Such adventures will always fail. Business men succeed as the result of a life-study of business. They pick their managers and head men and under-men for special qualities of fitness, and sack them if they do not make good. Such conditions do not prevail in Government offices, and muddle and waste go on.'

The bulk of the American Government vessels are run by arrangement with private concerns, which act as agents of the Shipping Board. In developing this system, the Board seems to have preferred employing persons and concerns comparatively new to the business, and afforded them every opportunity of making 'a good thing' out of it. The result was that ships fell largely into the hands of inexperienced people. There was little incentive for keeping down expenses. This system was denounced by Mr. Albert Lasker on his appointment as chairman of the Board as 'the most shameful piece of chicanery, inefficiency and looting of the public Treasury that the human mind can devise. If,' he added, 'a purposeful effort had been made to keep the books so as to cheat and defraud Congress and the country, they could not have been kept in any very different manner.' The system was replaced by a new form of agreement with managers, but the moral is that the State, whatever arrangements it makes for managing its ships, is handicapped. It experiments first with one system and

then with another, and they all fail because the State is concerned with them.

The Walsh Committee which investigated the affairs of the Shipping Board in 1919 reported that 'ships were commandeered and put in operation with no provision for an adequate accounting such as has been found necessary by private operators. . . . Agreements entered into for the operation of ships were subsequently modified and made retro-active, and accounts held up with no records in possession of the Fleet Corporation or Shipping Board to show the financial relationship between the operators and the Government. Many thousands of voyages had been made, and no accounting for the same had been rendered.'

It is well known that many of the sailings advertised by the Shipping Board are paper sailings only. The ships do not perform the voyages because no cargo offers. Voyages are frequently made for publicity purposes which can only be an expense, e.g. vessels loading for the Levant go on to India with 600 tons or so of cargo (barely enough to pay the Suez Canal dues) to enable the Board to advertise to the American nation that it has a service to India. The taxpayers' money is spent in the effort to mobilise public opinion in support of State shipping, but never with success.

That American ships that are privately managed need no flag discrimination such as, it is claimed, is necessary for State-owned vessels, to enable them to compete with the vessels of other countries, is shown by the following statement by Mr. Franklin, the head of the International Mercantile Marine and the greatest authority in America on the North Atlantic trade:

'Simply as an example I would like to say that we have for some years past operated one of our most important passenger services—the Red Star Line, between New York and Antwerp—with a fleet in which there are steamers of American, British and Belgian registry. These ships have run side by side, year in, year out, without discrimination of any kind. We have done it successfully for years, and could do it even more successfully on a larger scale.'

In 1835, when American shipping was all privately owned, De Tocqueville was able to write<sup>1</sup>: 'The Americans themselves now transport nine-tenths of the European produce which they consume, and three-quarters of the exports of the New World to European consumers.' To-day, when the United States Government owns more than half the American tonnage, and has for three years been making a supreme effort to capture the transport of the country's imports and exports, 38 per cent. of the trade is carried in American and 62 per cent. in foreign vessels, and the American taxpayers are paying heavy losses year by year on a State-owned fleet.

The State is always at a serious disadvantage in competitive business. The ambitious Government official must display self-confidence to win and keep the confidence of his political chief, and, as both may be equally unacquainted with the intricacies of business, it is hard for them to admit the value of private effort. Self-preservation, then, urges officials towards bureaucracy, and bureaucracy

<sup>1</sup> *Democracy in America.*

and business have nothing in common. It is conceivable that in normal times, and in very favourable circumstances, a well-organised Government department might succeed for a time in running liner services without actual loss, especially if the department contained an admixture of business blood, but no such success has yet been achieved, so speculation would prove unprofitable ; on the other hand, it is demonstrable that, owing to the inherent defects of Government machinery, it is quite impossible for a department to operate tramp ships.

The Socialist thinks only of passenger liners, running from specific ports at fixed times on a regular route. But about half the world's tonnage consists of tramp tonnage, and *about two-thirds of the cargo carried is carried in tramp ships*. It is on the tramp ships that we in this island country depend for the essentials of life ; they carry the bulk cargoes—the iron, ore, nitrate, wood, grain, seed, rice and sugar. Let us, then, see what the nature of the tramp business is, and satisfy ourselves whether it is of a kind that could be successfully handled by Government officials subject to all the necessary restrictions on initiative and all the checks on the taking of risks, which are necessary to the successful conduct of business.

The liner, whether carrying passengers or cargo or both, sails on fixed routes at scheduled times. The shipper, once having agreed to ship by a certain vessel for a named port, cannot alter the destination of his cargo. The tramp, carrying a full cargo, can be ordered by the shipper to any port he chooses within certain specified limits. The tramp is

available to carry in any direction, and will make a voyage in ballast one way at a loss if there is the expectation that she can secure a freight the other way to pay the cost of the round voyage.

The variety of voyages and cargoes is great, and can only be roughly classified according to the movement of trade, e.g. wood from the Baltic, Canada, Gulf of Mexico and west coast of North America ; grain from the Baltic and Black Sea, Canada, America, Argentine, Australia or India ; sugar from Java, Mauritius, Cuba or Peru, etc. Such cargoes are not all moving at the same time. The tramp manager must be constantly watching to see where the greatest demand is coming from and where freights are likely to be best. If he has a ship of 6,000 to 9,000 tons cargo capacity available in a British port, he will have, for instance, to consider whether he will send her to Brazil or Argentine with coals to load grain for home or elsewhere ; or to the United States or Canada to load grain for home or elsewhere ; or perhaps in ballast to the Gulf of Mexico to load wood for the Argentine, and then home with grain ; or lastly, to the East with coal, to load home in India, Burma, Java or Australia. Very often his original plan has to be varied owing to a change in market conditions, and the ship must be diverted to where a profitable cargo can be found. The conditions change from day to day and sometimes from hour to hour, and the tramp manager must react to them.

A summary of actual voyages made in the autumn of 1924 by five vessels shows how varied is the tramp business, it being remembered that the ship-owner in London or elsewhere is continually watching

the variation of supply of tonnage and goods in various parts of the world, and 'fixing' his ship for the most profitable business that is on offer in the Baltic Exchange—the great clearing-house of the tramp shipping of the world.

*Vessel A* : Cardiff—River Plate : coals.  
 River Plate—Hamburg : grain.  
 Hamburg—Gulf of Mexico : in ballast.  
 Port Arthur (U.S.A.) — Shanghai : case oil.  
 Shanghai—Portland, Oregon : in ballast.  
 Portland—Japan : wheat.  
 Ballast to Rangoon.  
 Rangoon—Home : rice.

*Vessel B* : Tyne—Genoa : coal.  
 Cadiz—River Plate : salt.  
 River Plate—N. America : maize.  
 N. America—Home : wheat.

*Vessel C* : Tyne—Genoa : coal.  
 South Spain—Japan : salt (next move uncertain).

*Vessel D* : Cardiff—River Plate : coal.  
 River Plate—West Italy : grain.  
 West Italy—Plate : in ballast.  
 Plate—Ireland : maize.

*Vessel E* : Glasgow—River Plate : coal.  
 River Plate—Canada : maize.  
 Canada—Mediterranean : wheat (next move uncertain).

In each separate section of every voyage business has to be done with a separate set of shippers,

terminal charges and conditions varying greatly from port to port. Hardly ever can the outward and homeward voyages of a tramp ship be fixed at the same time, and the tramp manager has, therefore, to trust to his judgment in sending his ship in a direction whence she is likely to get a profitable voyage home. If rates one way improve, it generally means that they fall the other way. The owner calculates as to the probable results before he begins a voyage, and in doing so relies upon experience and that 'sense' for the market which is inexplicable to anyone who has not spent his life in the active transaction of the shipping business, with all its uncertainties and complexities.

The benefits of State shipping for the country are illusory. The present chairman of the United States Shipping Board recently said: 'I would say that the whole country is now getting large benefits . . . the farmer gets a benefit in the way of getting his grain to market at the rates that are controlled by the Shipping Board.' But what is the benefit? The chairman of the Fleet Corporation explains: 'It is a sort of subsidy to the exporters and importers.' And who pays the subsidy, if not the taxpayer? And the question also arises—is this a subsidy?

The situation, as envisaged by the chairman of the Fleet Corporation, is reminiscent of the scene in *As You Like It*, where the courtier Le Beau comes upon Rosalind, Celia and Touchstone in the palace gardens.

"Fair Princess," he says, "you have lost much good sport." Being asked what sport, he describes how Charles, the wrestler, has thrown three brothers

and broken their ribs. "Yonder they lie ; the poor old man, their father, making such pitiful dole over them that all the beholders take his part with weeping."

*Rosalind* : "Alas ! "

*Touchstone* : "But what is the sport, monsieur, that the ladies have lost ? "

*Le Beau* : "Why, this that I speak of."

*Touchstone* : "Thus men may grow wiser every day. It is the first time that ever I heard breaking of ribs was sport for ladies."

"You gain large benefits," says the Socialist, and, being asked what benefits, he explains : "A subsidy for importers and exporters by increasing taxes."

*Citizen* : "But what is the benefit that the community gains ? "

*Socialist* : "Why, this that I speak of."

*Citizen* : "Thus men may grow wiser every day ; it is the first time that ever I heard high taxation was a benefit."

So the general community is taxed to the tune of \$50,000,000 a year in order to subsidise, as it is called, importers and exporters through the Shipping Board. And yet the importers and exporters do not seem to appreciate the "benefits" which are conferred upon them. The Shipping Board, in the summer of 1924, sent a circular to 10,000 of them asking them once more to pledge themselves to ship by United States vessels, and offering as a bait to refrain from putting into force provisions of the Merchant Shipping Law discriminating against foreign vessels. So it is necessary to coerce importers and exporters to enjoy the benefits of State shipping by the threat to deprive them of

other means of transport ! To judge by the following passage from a report of the Standing Committee on Harbour and Shipping and Foreign Commerce of the New York Chamber of Commerce, such coercion may be needed :

‘ The mere fact that there are 900 Shipping Board steamers laid up is not a conclusive indication that adequate shipping facilities are, or can be, afforded by American vessels, and certainly the Shipping Board vessels now in commission, together with those privately owned, are not sufficient to give adequate service. *A mere supply of the given amount of tonnage is only one of the factors necessary in the furnishing of the exporters of this country with adequate service.*’

Many nations which do not seek to run State lines subsidise their shipping. It is an expensive luxury. The British Government does not pay a penny in subsidy to British shipping, though some lines receive payment for services, such as carrying mails, Government passengers and Government cargo, but they get the market price and no more. British shipowners do not desire subsidies, as they have declared time and again. They are invariably accompanied by control in some form, and consequent loss of efficiency. Sooner or later a country which tries to run shipping as a Government enterprise gets tired of paying an annual loss, and decides to put its vessels on a paying basis by excluding the foreigner—in other words, it practises

what is called 'flag discrimination.'<sup>1</sup> The taxpayer may imagine that he has escaped the burden, but the relief is purely imaginary; indeed, the indirect burden thrown upon the trade of a country which adopts flag discrimination—penalising foreign ships which visit its ports in order to favour its own vessels—is much heavier than the burden of a subsidy.

The community pays for the shipping through an increase in the price of its imports and exports instead of through taxes, and never knows how much it has to pay. Flag discrimination, moreover, brings serious evils in its train. In the first place, it creates international friction; the commercial interests are immediately arrayed in hostility against a country which adopts this policy; and even Governments may become involved in the disputes. Flag discrimination on any large scale is almost certain to lead to retaliation, not by one country alone, but by all those countries which have experienced the value of freedom of the seas and freedom of the ports, and intend to preserve that double freedom. The Maritime Ports Convention was agreed to in 1923 by all the chief maritime powers which form the League of Nations. In this convention not only did all these countries condemn flag discrimination in any form, but they agreed that if sufficient provocation were offered retaliation would be permissible.

<sup>1</sup> The International Chamber of Commerce has issued a pamphlet on this subject entitled *A Survey of Acts of Flag Discrimination and their Effects*. This pamphlet, which contains much useful information, can be obtained from the Secretary, British National Committee, International Chamber of Commerce, 14, Queen Anne's Gate, Westminster.

Ocean freights are controlled by the open market, and humanity generally benefits from the world-wide competition tending to keep efficiency high and the cost of sea carriage low. The effect of monopoly is, however, seen in the coasting trade, which is reserved in many countries; but not in this country.

The result of restriction is notorious among all who are concerned with sea transport. Chile reserved her coasting trade in 1922. Foreign competition was excluded, and freights rose 100 per cent. within 12 months. The Government appointed a Commission to examine the situation in the interests of Chilian traders and the general community. This Commission has succeeded in bringing about an agreement for reduced freights, but, even so, they are 50 per cent. higher than they were before the Government interfered with the trade. As a result it costs 36s. a ton to ship wheat 700 miles coastwise, and only 30s. a ton to ship it 7,900 miles to the United Kingdom.

The Australian Tariff Board recently reported to the Dominion Parliament that they had 'no hesitation in reporting that the present Navigation Act (reserving the Australian coasting trade) is working very detrimentally against the best interests of the primary and secondary producers.' The Government appointed a Committee to review the Act in operation, and the chairman of the Tariff Board gave the following evidence before the Committee. In reply to the inquiry, "What effect has the Navigation Act upon Australian development?" he stated: "Formerly outlying ports had the opportunity of competitive and more frequent

shipping services, which allowed them to send their products to the more populous centres at a fairly reasonable cost. The conditions now operating eliminate that competition, impose heavier freights and deprive those people of the facilities they once enjoyed." The Committee have since recommended the repeal of the provisions in the Act reserving the coasting trade. The opinion of American commerce on the proposals to introduce flag discrimination in that country is contained in the report of the Committee of the New York Chamber of Commerce, already quoted. Referring to the suggestion to restrict special import and export rates to goods moving in American ships (the most favoured of these proposals), they report that it will produce 'a degree of chaos in the export and import trade of the United States, besides leading undoubtedly to reprisals from other nations.' It need hardly be added that State shipping and private shipping cannot run side by side for long. Already the private shipowner in America is complaining that the Shipping Board is ruining his business.

Wherever the State has tried to operate ships it has failed. The experiment has been tried in old countries in Europe, such as France and Portugal; in countries with well-developed oversea trade, such as the United States, and in new countries, such as Australia and Canada. The conditions of these experiments have been of the most varied character, but in every case the taxpayers have suffered in pocket, while producers and consumers have been handicapped. In these countries shipping was not vital to the happiness and prosperity of the community to the extent that it

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is in this island country. We cannot afford to risk our sea-carrying trade, because it is part of the organisation for the supply of food and raw materials. If it were to fail us we should be in danger of starving, and even if State interference stopped short of bringing about that disaster, any loss of efficiency would react prejudicially on our foreign trade, which is our life-blood.

## CHAPTER VI

### STATE-OWNED RAILWAYS

WHAT would have been the industrial history of the country if, one hundred years ago, the Government of the day had determined that inland transport was to be regarded as a State monopoly? It is certain that since public opinion was generally opposed to railways as risky innovations, the Stockton and Darlington railway would not have been opened on September 27th, 1825, to be followed by the Liverpool and Manchester line. For it was only a comparatively small body of enthusiasts who believed in the possibilities which resided in the steam locomotive. The new form of transport had few friends, and no Government would have dared to risk public funds in laying and equipping the railways. The movement owed its progress to the courage and vision of a few engineers, supported by groups of private capitalists who had been impressed by the success of Stephenson's 'Rocket.'

The argument most frequently urged by those who advocate State ownership is that some Governments own railways, and manage them with more or less success against competition by private companies. The plea is sufficiently important to deserve consideration, but a certain amount of preliminary exploration of the matter is necessary. In the first place,

to say that a railway is successfully managed is a very loose way of speaking. If success means mere financial solvency, some States can claim to be successful railway-owners ; but if it means a standard of efficiency measurable in cheapness of transport, in low running costs, in development and rapid adaptation to altering circumstances, then the claim must be examined very carefully. Again, railway competition is an even more elastic term. Many places in England have two railway stations ; and it is often possible to get to places in the London suburbs by several lines ; but that does not imply competition in the ordinary sense of the word. It is an understood thing that a railway serves a certain area, and has a virtual monopoly of it. If it were possible to get from Paris to Marseilles by more than one line, competition would exist between them ; but the mere fact that a traveller can get to Plymouth from Paddington or Waterloo does not really imply competition between the two services ; the monopoly of the Brighton and Newhaven traffic by the Victoria line, and of the Salisbury traffic by the other, are far more important than the local rivalry caused by their occasional points of contact in the suburban area. The truth of this can be tested by anyone. Let him take a Bradshaw and set down in one column the number of towns which are served by more than one railway line, and in the other those which are served by a single system. He will find that the second enormously outnumbers the first. Let him remember, also, that of all countries England is the most unfavourable to the comparison. In France and America the geographical monopolies of particular lines are far more

developed. If, then, the advocate of railway nationalisation argues that Government railways have *competed* with private companies, his statement must be received with caution ; for in this connection the word has not got the meaning which ordinarily attaches to it.

The looseness of the statement may be seen by giving a particular instance of how it has been used. Mr. Philip Snowden, in his book on *Labour and the New World*, makes a triumphant quotation from Lord Morley's eulogy of the State-owned railways of India ; but he omits to add that they have an absolute monopoly of the areas in which they work, and that it was the private companies which set the standard of cheapness and productive service to which the State concerns have striven to conform.

The comparison must obviously be made more carefully ; and there are abundant materials for doing so. No example of the State system could possibly be more favourable to the Socialist theory than that of the German railways. They were brought under State control by a Government notorious for its administrative ability ; they have been served by officials who, though extremely disagreeable, are at least laborious and honest ; and they have been worked in a country which regards State regulations with positive reverence. Does the resulting system compare favourably with those in other countries ? Figures at once deny that it does. In Germany before the war goods could be transported at the rate of 0.16d. per ton per mile ; in America, where private enterprise is supreme, the corresponding *post-war* figure was

0.15*d.* In Germany the receipts of railways were reduced between 1880 and 1909 from 0.83*d.* to 0.71*d.* per ton per mile; in America the figures for the same period were 0.62*d.* and 0.38*d.* This means, in plain words, that whilst the State-owned railways of Prussia increased their transport efficiency by 15 per cent. in thirty years, the American private companies did so by 40 per cent. Nor should it be forgotten that the German railways had an immense advantage, in that they mainly run over flat country. There are no German Rockies, with their immense gradients and cuttings, no snow tunnels to be built at enormous cost, and none of the exceptional maintenance charges which prevail in the United States as well as in Canada.

It would, of course, be a work in itself to analyse the reasons for this contrast; but one deeply significant fact may be emphasised. The American railways have steadily increased the volume of their traffic and freight units; those on the German railways have remained stationary. An American car can now carry loads of 90 tons, and an American freight train may be charged up to 500 tons; the average German freight load is about half. Under the hampering, cramping trammels of a bureaucratic system, the German railway officials have not had power to develop more unit efficiency, to devise more methods for increasing output and productivity, or to increase the capacity of their lines to deal with larger business and increasing pressure.

It might, however, be said that it is hardly fair to compare a European system with an American one; and that if the German State railways are to be tested properly, they ought to be compared with the

French or British. If an ordinary traveller were asked to say whether the German railways before the war were better and more efficient than the French, he would probably say that they were. The general impression of orderliness and precision which he used to receive from travelling in Germany would have convinced him that German State control had risen to a standard of efficiency which the French companies could not equal. Let us see how far the impression would be correct.

German railways had many advantages over their neighbours. The land is flat, and produces large quantities of iron, steel and coal, which supply paying traffic ; one has only to travel for an hour in the mountainous districts of France to realise the immense capital outlay which the system must have required. To take but one example. If a traveller takes a short journey from Morez to Nantua, in the Jura, a distance of about 36 miles along the valley of the Bienne, he will pass through about fifty cuttings, all hewn out of the solid rock, and faced with the most elaborate masonry. More than that, a great deal of the railway runs along a platform which has been cut away from the face of the mountain-side. This vast labour has been necessary to connect two little country towns, the one of 5,000 inhabitants, the other of 3,000, by a single-line railway ; and it is but one instance of the difficulties with which the French constructors have been confronted. The eastern provinces—that is Alsace, the Dauphiné and Savoy—are far more mountainous and occidented than the Jura ; the centre and south, from the Mont Dore to the Cevennes, is equally so. All these disadvantages ought to be reflected in higher

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working costs ; but are they ? The very reverse. The proportion of the total earnings which go to upkeep and running-charges has always been lower in France than in Germany. The exact figures are<sup>1</sup> :

	1900	1910	1911	1912	1913
Per cent.					
France .....	54	60	62	63	63
Prussia .....	62	67	65	66	66

The reason for the rise in the French rates is equally instructive. It is due simply to the extravagant and wasteful system which prevails on the one railway in the country which is State-owned. French railway experts maintain that, if the average in 1913 had been taken simply for the private companies, the figure would have worked out at about 58 per cent. Nor should the comparison end there.

One of the charges most frequently levelled against the private ownership of railways is that the State would have far greater freedom to develop concerns which, though temporarily run at a loss, would in the end enormously benefit the country. Now of all the Governments in Europe, the Imperial German Government ought to have been most free to pursue a policy of long-sighted development. The Reichstag nominally controlled the budget ; but the most superficial reader of German history in the nineteenth century knows that an Imperial Minister had only to recommend an exceptional expenditure for reasons of State, and the representative Chamber voted the money. More than that,

<sup>1</sup> Sir William M. Acworth's *Historical Sketch of State Railway Ownership*, contains a very full analytical statement of the case against the Socialisation of the railways, and acknowledgment is made to this comprehensive work.

it is notorious that the German railways were discussed as part of the country's military power, and regarded as such by the population. Did the State railway managers in these favourable circumstances show an enterprise equal to that of the French companies? A very simple set of figures shows that they did not. Germany, with a population of 60 million souls, owns 32,000 miles of railway; and France, with a population of 39 million, has 25,750 miles.<sup>1</sup> The disproportion is even more striking if one compares the enormous industries of Germany with those of France.

Even now the comparison is incomplete; for the German railways are a fair example of the defects of a State system. Covered with the State authority, they have contrived to protect themselves against responsibility by regulations which no private company would ever dare to enforce, in that the common law of France and Great Britain would not permit of it. In France, as in Germany, the railway is bound to deliver goods within a certain specified time. In France the company assumes responsibility from the moment at which the goods are carried to the railway; in Germany the railway bears none until the goods are actually loaded on to a truck. They may stay for days in a shed owned entirely by the railway, and under railway supervision. The State gives the owner no right to compensation on account of the delay, nor to an investigation to ascertain whether it has been due to negligence. If the goods are destroyed by fire the trader remains without redress; and even if they are destroyed in transit

<sup>1</sup> *The Statesman's Year-Book, 1924.*

by an accident, the trader is only compensated for a part of his loss. Should he wish to secure himself completely, he must, at his own charges, take out an insurance policy.

Compare this system with that which prevails in France and Britain, and it is impossible to resist the conviction that a State concern, with public authority to defend it, insures itself at the expense of those it is supposed to serve—producers and consumers. It takes advantage of certain privileges which a private corporation cannot possess ; and, to a certain extent, it is natural that it should do so. What proportions this vice would assume if the States of Europe were all and singly the owners of their own railways cannot be estimated. One thing is certain : it would become infectious and spread enormously, and all competition would be stifled.

There is no escaping from facts of this kind ; they show how deceptive a general impression may be. The orderliness of the German railways hid, in the prosperous days before the Great War, a wooden, inelastic system ; and the Latin manners of the French railwaymen under the companies equally well disguised a genuine efficiency. The German railways may well be quoted as a model achievement for a State concern ; but not as an example of how the State may surpass private management in efficiency and enterprise.

Thus much for a comparison between the French and German systems ; but no mention of the French railways can be made without some reference to the *Réseau de l'Ouest*, which was nationalised in 1909. There can be no doubt that the old company had been in serious difficulties for years. Their

railway served the western and south-western provinces of France—Normandy, Brittany, Poitou and Northern Guienne. It thus ran through districts which were exceptionally poor and unpromising for railway development. Most of the rich transcontinental traffic came into France through Calais and Boulogne, which belong to other systems. Brest, the principal port on the railway, is mainly a naval harbour; and the wine trade from Bordeaux is mainly carried by sea. The chief business of the line thus consisted in passenger traffic to and from places which, with the possible exception of St. Malo, are not much visited by tourists and holiday-makers, and in agricultural produce carried from the country districts to the provincial towns. It was cut off from the heavy freight traffic in minerals, coal and machinery which, as everybody knows, is the most profit-making business in which railways can be concerned.

None the less, although the company was in difficulties, it struggled with them bravely. By economies and good management its receipts rose by a million pounds between 1904 and 1908 (£7,400,000, 1904; £8,400,000, 1908). It is true that every year the French Government had to find money for the guaranteed shares; but that does not in itself prove that the company would not have extricated itself in the end; nor was it that reason alone which caused the transfer. About 1906 the company required more capital to renew its rolling stock, and to develop its local passenger service to the western suburbs of Paris. The capital could not be obtained without parliamentary approval; and from the moment that

approval was asked for the question became as much one of politics as of railway management.

A few words of explanation are necessary to show into what currents of opinion the new nationalising project was thrown. During the ten years before the war the French electorate steadily voted 'towards the left'; more and more representatives calling themselves 'Radicals,' 'Radical Socialists,' 'Unified Socialists,' and so on, were returned to the Chamber. Most of them were pledged to the gradual nationalisation of industry and the extension of State control; and practically all of them were firm advocates of reducing armaments. Responsible French statesmen, whatever their party, were thus placed in a serious dilemma. If any Premier, before taking office, denied or belittled the German danger for reasons of party politics, then as soon as he assumed his responsibilities a whole army of officials were quite able to show him, by facts which there was no gainsaying, that the danger existed, and was pressing. Foreign Ministers were in exactly the same position. They persuaded themselves, their electors and their party chiefs that the French frontiers could best be protected by diplomacy and good-will; and as soon as they took up their residence at the Quai d'Orsay they realised that they could only be defended by men and guns. Premiers and Ministers were thus faced with the double problem of doing their duty to the country and of persuading their political adherents that their convictions were unchanged.

Compromise is always the medicine for a complicated parliamentary position; and for ten years the French Chamber lived on it. Great concessions

were made to Socialist deputies in domestic questions, in return for which they voted the credits necessary for maintaining the army at a high state of efficiency, and for supporting the navy, and in times of crisis gave the Ministers a free hand to act as the honour and dignity of the country demanded.

It was into this atmosphere that the new Railway Bill was thrown ; and it was, in the nature of things, a matter upon which the deputies could vote in the light of their party commitments. All the advanced members of the Chamber urged that the whole system should be taken over by the State. A large number of deputies from the western provinces adopted the same view, hoping that they would thereby secure to themselves the votes of all the railwaymen in their electoral districts ; for the personnel believed that they would have far easier conditions under State management. The more old-fashioned members, who were reluctant to see the country break away from its traditional railway policy, argued that if the State continued to find funds for the guaranteed dividends, its commitments would be less by allowing the private company to continue in the management than by itself assuming it. Monsieur Clemenceau was Premier when the Nationalisation Bill was brought up in the Chamber, and he faced the political situation in the manner which had become habitual to French statesmen of his day. Anxious to retain the support of the Socialist deputies on what he considered more urgent questions, he defended the Bill and got it passed.

This somewhat lengthy digression has been necessary to prove that the French Western Railway

was nationalised for reasons which went outside economics. If anybody looks through the debates which marked its progress, he will easily detect an accompaniment of preconceived ideas and party commitments running through the whole discussion. And what has been the result? In the two years which followed the assumption of State control the working expenses were increased by nearly £2,000,000; and the proportion of working charges to total receipts rose from about 56 per cent. to 85 per cent. More than that, the forecasts of those who opposed the Bill have been justified by later events. The average annual payment by the State to the railway during the last ten years of the company's management was £580,000; 'during the first three years after the transfer, the sums it had to find under the same head were £1,300,000, £1,800,000 and £3,000,000 respectively. . . . As for the service in general, one figure will suffice. Compensation for accidents, loss and damage averaged some £80,000 or £100,000 a year in the last days of the company. In 1911 the figure was £400,000.'<sup>1</sup>

It has, however, been left to the pen of an eminent Frenchman to condemn the system in the most telling terms. Monsieur Leroy Beaulieu is justly famous for his impartial, scientific manner of discussing the problems of modern France. His works upon *A Modern State and its Functions* and upon the *Science of Finance* are models of their kind, and it is in this manner that he explains the 'deplorable position' on the Western Railway:

<sup>1</sup> Sir William M. Acworth's *Historical Sketch of State Railway Ownership*, p. 33.

' In the first place, it is the abuse of formalism and red tape, with all the delays which follow and which are directly in conflict with commercial needs. In the second place, it is the lack of stability. The director and all the chiefs of the service change at the will of the Ministers, whilst in the private companies the higher personnel is maintained a long time fulfilling the same functions. It is next the political influence which enters into the choice and advancement of the personnel. It is, lastly, the lack of discipline which also results from the political influence at work. From the electoral point of view the lower staff, being much more numerous, will always have much more power than the superior staff. It is always on the side of the former that many Deputies will be systematically ranged.

' Above all, it is impossible to be at once controller and controlled. If one of the great French companies under private management renders poor service, the public opinion is not slow to move the public power, and as this has the means to bring pressure indirectly, but in many ways, upon the companies, they are led to reform. On the contrary, when complaints are made against the State itself, the administration, irresponsible, does not listen. Rather, it seems indignant that particular individuals, or even large associations, should dare to find that all is not perfect. "I have not seen without a certain astonishment," said the Minister of Public Works in the Chamber, "the Chambers of Commerce criticise the actions of the State in its (their) reports upon the railways." The same Minister

has dismissed an employee from his office who was at the head of a section of a passenger line which emitted protestations against the delays on the Western State service in the Paris suburbs. When the Minister was reproached in the Senate, he declared himself ready to do the same again. One may see how dangerous to the liberty of citizens the extension of the industrial *régime* of the State would be where the number of functionaries would be indefinitely multiplied, and where they would no longer have the right to complain.

‘From all points of view the experience of State railways in France is unfavourable, as was foreseen by all those who had reflected upon the bad results given by the other industrial undertakings of the State, such as the telephones, matches and many others. The State, above all an elective administration, cannot be a good commercial manager. It works expensively, and is powerless before its employees. The experience which we have recently gained has had at least one result. It has provoked a very lively movement, not only against the repurchase of the railways, but against all extension of State industry. This result seems to me fortunate. I hope this opinion will be maintained, and that not only we, but our neighbours, may profit by the lesson of these facts.’

Hitherto the analysis of the results of State ownership has been focused upon examples where the Governments exercising it were best fitted to do so. Germany, by its traditions, was well equipped to

manage a huge State concern ; and France, though it did not possess the same advantages as its neighbour, at least possessed a fine bureaucracy, notorious for its honesty and capacity for hard work.

A brief review may now be made of the results of State ownership in other countries.

The Italian Government assumed control of all the railways in the country in 1905. The results were : (1) That in eight years the staff was increased by 23 per cent. and the wages bill by 57 per cent. ; (2) that in the same period the proportion of working costs to total receipts rose from 73 per cent. to 84 per cent. ; (3) that on a capital outlay of £275,000,000 the railways pay a net profit of from one to two-fifths per cent. It will occasion no surprise if the inefficiency of the Italian State Railways does not result in the near future in their being handed back to private management.

The Australian Government has owned its own railways from the beginning, and has very carefully avoided publishing any statistics which would allow them to be compared with other systems. They have probably been well advised ; for the one fact which they have allowed to come to light is that the railways, which have least to fear from inspection and comparison, carry a ton of goods for one mile at a charge about three times as great as that of the Canadian and American companies under private ownership, and thus industry is handicapped. In a word, the mass of the workers have to subsidise the workers on the railways as well as pay for the inefficiency of the management.

In 1897 the Swiss Government became the owner of practically all the railways in the Federation.

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For the first ten years the ordinary vices of State control were kept under some check. Wages and operating charges increased by tolerable, incremental percentages; but, after that, the movement quickened. Between 1900 and 1911 the wages bill was doubled, and the operating ratio went up from 65 to nearly 80 per cent. The capital debt of the railways, which, according to those who most strongly advocated the scheme, was to have been extinguished, rose from 41 to 54 millions. The Swiss people have paid dearly for the nationalisation of the railways.

If the analysis could be pressed further, and an examination made of all the State railways in the world, the result would most certainly be the same. Where statistics are available they would show a steady tendency to increase working charges, to lower profits and to assimilate railway management to the administrative methods of large Government offices, which, in the very nature of things, cannot be worked at a profit; and in the result producers and consumers suffer and the community is penalised.

No person familiar with the services rendered by Civil Servants in Great Britain joins in the jibes which are often directed against them; for nobody in his senses can maintain that the War Office or the Admiralty should be made to pay a dividend; and everybody agrees that they are both essential to the State. There is a very important consequence to these two admissions, which is that the wages of all Admiralty and War Office servants, though given in return for useful service, are un-economic: that is, they do not contribute to a

concern which repays in money values. There is only one way of assessing payment fairly in such cases: it is that of finding out what responsibility a man undertakes, what degree of knowledge and skill his work demands, what have been the costs of the education necessary to fit him for the post he holds, and of giving him a salary proportionate to it.

Now, when a State takes over the control of its railways and when, in consequence, all the railwaymen become Government servants, it is perfectly natural that they should claim to be paid on the same method of assessment as prevails in the Civil Service, and the vote of the workers can be, and is, used to their own profit. It is for this reason that the wages bills of State-owned railways rise so steadily. Can the claim be satisfied? Yes; but only by parting from a basic principle of economics.

The wage of any man engaged in a paying concern cannot be assessed by equity alone. It is useless to plead human rights in the face of economic laws. Railwaymen's wages may be *proportioned* by all the tests which apply elsewhere: responsibility, skill and length of service; the actual figures must depend upon takings and profits and those must be regulated by the trade and industry of the country in competition with the trade and industry of other countries. The labour of any person engaged in a business which depends upon profits for its bare existence is a commodity, subject to all the fluctuations in price of goods thrown on the market. Many will say that this is a re-statement of an exploded theory, which only means, however, that much has happened in the last ten years to obscure

the intrinsic truth of the statement. It is only by reverting to a hypothesis which was accepted as true by Burke, that one can really measure the consequences of the theory now under discussion. The advocates of State control of railways will at once say that the facts which have been reviewed prove nothing which they are not prepared to admit. 'The rise in the operating costs of State railways,' they argue, 'is justified in the better living conditions of the railway personnel. Shorter hours and higher pay produce a finer physical and mental type of man; and we claim that it is only by extending State control that we can enfranchise the working personnel from the inhuman law which gives economics and profit pre-eminence over human development.' If the full consequences of State control were set out in the figures which have been quoted, that is, in the rise of operating ratios from about sixty to nearly eighty per cent., there would be something to be said for the theory on the broadest grounds—ignoring the interests of the community generally.

Unfortunately they do not represent anything like the full consequences. They simply show what has happened in the case of a few railways, working alongside others, privately-owned railways, and serving industries exploited by private capital. These State-owned concerns are the exception; and organised capital has kept their vices under control. It must, however, be remembered that the plea for a State to own its railways is only part of the bigger plea, that the State should own all profit-making concerns. The principle of wages assessed independently of economic laws has, so

far, been applied only with strict limitations. To picture its total consequences one must imagine the steady, incremental increase of operating ratios—hitherto discernible in a few State railways—methodically at work in a greater and greater number of concerns. One must conceive of the slow but inevitable rise of prices which would follow ; of the burden of taxation eating up first the incomes, and then the capital, of those who could pay ; of the deficit in the national finances, tided over by expedients, but never filled up ; of the falling off of foreign trade ; of the steady spread of anxiety and strain, of poverty and finally of destitution ; and of the violent and bloody convulsion which would terminate the episode.

## CHAPTER VII

### THE STATE AS TRADER

THE conception of the State as trader is an integral part of the Socialist theory. It is usually defined as the control by the State of all the means of production, distribution and exchange. The formula is so comprehensive as to cover practically every form of activity and to rule out almost every phase of private enterprise.<sup>1</sup> The formula expresses the ultimate end which it is hoped to attain ; it does not indicate the method to be employed. On such details Socialists are vague. They indulge in generalities and evade coming to the real issues. But, in any event, the final goal is that industry should come under the control of the State, being managed by a Government department or section of a department. Its personnel would become Civil Servants of one class or another ; the administration would be that of a State department lacking the essential enterprise, knowledge and foresight of a business concern.

<sup>1</sup> Though emphasis is laid on 'the supplies of food and other necessities of life (especially bread, meat, milk, sugar, butter and margarine), water, coal, and transport by rail, steamer, tram and 'bus,' the trend of Socialist policy is towards universal nationalisation of every activity connected with the production, distribution and financing of every essential trade. Mr. Arthur Henderson has declared : 'We are out for a new social order and our programme is intended to secure the socialisation of industry—of all great industries.'

When the Socialist speaks of State trading, he attempts to give the impression that by 'the State' he means the philosophical conception of the State as the totality of the citizens and yet something with a personality, and, as it were, soul of its own—something above and beyond a mere aggregate of persons. We hear much of 'service to the community' as the ideal in place of personal profit. The Socialist endeavours to appeal to ethical aspirations, and to create in the mind of those he addresses the picture of a great harmonious community, each individual, unhampered by possibilities of personal gain or aggrandisement, labouring for everyone else and for the common good.

That is the ideal, but, in point of fact, at the stage of development which the nations of the world have reached, the State is a bureaucracy to which are entrusted the management of such affairs as cannot be left to individual control, e.g. national defence. It is to that bureaucracy, unchanged, but extended, that we should be compelled to entrust the trading done by the State, for the workers themselves are unqualified to exercise control, knowing little or nothing of the problems of financing production or selling goods. A vast expansion of the Civil Service, to which there is no parallel, would be inevitable—a Civil Service paid a high wage and with pension rights, whether the particular nationalised industries showed profit or losses. If we proceed along evolutionary lines, as such Socialists as Mr. Sidney Webb would have us do, there is no alternative to this, and the practical question is how far a Civil Service, a bureaucracy—using the word in no offensive sense, for in its own legitimate sphere our

Civil Service has no rival in any country—is capable of acting as trader without such transformation as is equivalent to a revolution, on the results of which no one can dogmatise, though we may legitimately point to the tragic experience of Russia.

Two considerations may be submitted. The State by its constitution and character, being subject to democratic control, is fundamentally unfitted to act as trader in the ordinary meaning of that word, particularly if we bear in mind the interaction of home and foreign markets. The second is that actual experience exposes the fallacy of the theories on which Socialists rest their claim for such an industrial revolution.

It is not suggested that in no case and under no circumstances is State-trading possible. As in the case of national defence, there are certain services that by tradition or by their nature, being monopolies, the State has decided to supply. The General Post Office may be quoted as an example that at once occurs—a monopoly which is administered, on the admission of Sir Evelyn Cecil's Committee, on uncommercial lines, with a consequent loss of income and injury to the trading community. Further, there are circumstances where State trading, in all sorts of ways, may be desirable. The emergencies of the war period supply many illustrations. In the case of the new-born States of eastern Europe, again, the State had to organise and run many essential services, for the simple reason that no private person was able to do so, and the loss attendant on such supply was a necessary evil that only the State could bear. State control even in such circumstances, where no other course is practicable

for the time, has certain glaring defects and unhappy results. Nor can we criticise exceptional cases where State-trading is embarked upon for special reasons of public policy, but that is a very different matter from 'the nationalisation of the means of production and distribution' in a country with 44 million inhabitants, who, if they are to live, must buy and sell in foreign markets, and must, therefore, submit to competitive conditions.

The first point in the case against State-trading is the difference in outlook and aim between private and State enterprise. Under private enterprise, trading is a highly organised affair of free initiative. The law of the survival of the fittest operates, efficiency is promoted, and the community profits. Its aims are self-confessed—to make a living for the trader. That living has got to be made in competition with hundreds of others. If mistakes are committed, the trader himself pays for them in loss; occasionally he fails altogether and disappears. Neglect, carelessness, bad or antiquated organisation, dishonesty—all bring their punishment. At every turn the trader is conscious of the competition against him, and it acts as a spur to effort. He cannot unfairly exploit the public, trying to pass on the price of his mistakes, without giving his rivals the chance to destroy him. Even if he enjoys a complete monopoly, the public has the best of him and can force legislation either to break the monopoly or to control prices; public opinion, in the last analysis, is an effective check on abuses. The private trader, in short, is the servant of the public, and when he ceases to serve it efficiently, he goes under, as the histories of countless businesses attest.

With the State as trader, conditions are entirely different. It can know nothing of the law of the survival of the fittest, and it can brook no competition. To the private trader, there comes a time when his loss overwhelms him in disaster. The State, however, can recoup any loss by the simple process of appropriating public money which has been derived from the taxpayer, and may succeed in concealing the loss in the multiplicity of national accounts. Low price in a State-supplied commodity is no criterion of actual benefit to the purchaser, unless the State is supplying at that low price without loss. The private trader stands on his own feet ; the State has inexhaustible resources which prevent the enterprise from being subject to the ordinary economic laws. It is in essence un-economic ; it spends, but never saves. It has no resources except the pockets of the citizens.

But the essential objection to nationalised trading is that the State is not organised, and cannot be organised, for successful trading. Hitherto it has been organised almost wholly for administration, and that affects its efficiency as trader in two ways. In the first place, the Civil Servant has no training in commercial organisation and management ; indeed, all his traditions and education are in the opposite direction. As the Earl of Birkenhead has remarked, 'you cannot master the business system of this country in the cloisters of Oxford and suddenly take up and deal with a most complex organisation which has developed and grown up in centuries of national life.' Let us suppose that an Act of Parliament either sanctioned the taking over by the State of the entire grocery trade or sanctioned

the creation of a State grocery enterprise in opposition to the present grocers' shops. In the former case, all the grocers and grocers' assistants would become State employees, and therefore practically irremovable, and would lose the incentive to the little extra efficiency which counts for so much, the hope of themselves opening grocers' shops, while owing to the absence of competition they would lose the real incentive to efficiency of any kind. In the second case, the State grocers would be in even worse case, for, protected and secure, they would be at war with competitors whose very existence was threatened and whose efficiency and keenness would be doubled. In both cases, the State grocery department would require a head office which would be a department of State. That department would have to be staffed by Civil Servants without knowledge of or aptitude for commerce, habituated to routine methods which, if they be a necessary evil in the War Office and the Admiralty, would be absolutely destructive to a trading department, especially if the latter were in competition with private enterprise. Nor would it be any gain to staff the department with ex-grocers, whose moral and vocational standards and abilities have, in the eyes of the Socialist, made State-trading a necessity.

Furthermore, this department, whether enjoying a monopoly or not, would have to meet, under the conditions governing private trading, all the interests, many of them foreign, which supply the grocer's stock-in-trade. And here, again, its lack of experience and its administrative traditions would render it completely incapable of holding its own. It is,

indeed, for this very reason that propagandists urge that the State shall be the only trader, constituting a complete and all embracing monopoly, because, since every trade is linked up with every other trade, the State, ill-equipped for the competitive fight, would have to control every trade before it would have a chance and, the more its handicap in relation to the private trader was realised, the more the Socialist would clamour for the further extinction of the private trader.<sup>1</sup>

Again, State-trading being a branch of Government activity would be under rigid Treasury control, and the methods of the Treasury, however suited to present conditions, are unsuited to trading. Every enterprise and every business needs what may seem unnecessary and profitless expenditure. That is what is called 'taking the long view,' and the trader is content to do without profits and live on capital, if, by installing new machinery or building new warehouses and stores, he can look forward to good results, say in ten years' time. Of such expenditure the trader is the sole judge; he is answerable to no one unless it be his shareholders in the case of a joint stock company, the sharers with him of the risks as well as the profits. On the other hand, every State department has necessarily to justify every penny of its expenditure to the Treasury, from whom it must draw all its funds and surrender any profits it may make, and it eventually must satisfy the Accountant-General as well as Parliament. The State's accounting

<sup>1</sup> "To talk about the nationalisation of one industry meant that sooner or later they would be nationalising them all." Mr. A. Purcell, late chairman of the Trade Union Congress.

methods are strictly on a cash basis. Estimates of expenditure for one financial year are submitted to Parliament, and consequently there is no means of providing the capital essential to any trading concern. The trading department, necessarily ignorant of the future movement of markets abroad, where it must buy largely, would have no capital, and its view would be limited in the matter of finance to twelve months. Suppose it desired to extend its operations and estimated the necessary expenditure at £1,000,000. It could not work on its capital, for it would have none. It must submit its estimate and ask Parliament to grant the money. If any mistake were made, and it was found that another £500,000 was needed, a supplementary estimate would be required, and a supplementary estimate is anathema to the Treasury. The grant spent, there would be no money in reserve; all else would have to be provided for out of revenue and, if there were no revenue, out of the taxpayers' pocket next year, that is, unless Parliament brought the trading enterprise to a close in despair. It would be necessary for the Treasury to provide its trading department with capital to enable it to be run as a trading enterprise, and that is precisely what, organised as it is at present, it cannot do. But to transform the Treasury into a banking concern, which could stand behind a trading department, letting it have a capital account, sanctioning expenditure for years ahead, giving the administrative heads the power to plan as their private rivals plan, and seek ultimate, rather than immediate, profits, would mean such a reorganisation of our whole State system of finance

as would prove impossible and would predicate a degree of confidence on the part of the community which would certainly not be exhibited.

Further, such a system of finance—and any department staffed by men immune from practically all the consequences of inefficiency and handling not their own, but other people's money, would demand the most rigid Treasury control—would inevitably mean publicity. Where the State enterprise was a real monopoly, the consequences of this might not seem very grave, except to the consumers, but where it was in competition in the home or foreign markets, they could scarcely fail to be disastrous. While its rivals would be really private traders, laying their plans in accordance with ordinary commercial strategy, every detail of the management, prospects, finance, and even personalities of the State department would be made the subject of discussion and revelation in Parliament and the Press. Imagine a business not merely having to account publicly for every penny of its expenditure, but unable to get capital without stating publicly its reasons and precisely what it intends to do with it !

Thirdly, under State-trading it would be impossible to separate trading from politics ; if the State were the only trader in the country, then every trade question would become a political issue. If it be suggested that the function of the State as trader is to furnish the citizen with commodities at prices as low as is consistent with sound finance, what is sound finance at once becomes a party definition. It would be possible for the State to give away a commodity for nothing—a policy seriously put

forward by some Socialists so as to enable the State to establish a monopoly other than by Act of Parliament, and actually held up by others as the ideal condition—by the simple process of meeting any excess of expenditure out of taxation. Therein lies the possibility of wholesale corruption, not merely of trade, but of national life. A party, in order to carry out its programme, might, for instance, go to the country with the promise of an uneconomic increase of pay to State employees, that is to say, to practically everyone in the service, or, what might be worse, to a particular class, the increase to come, not from the department concerned, but from money raised in other ways than by trading, from land taxes, or higher death duties, or at the expense, say, of national defence. Unfortunately there is no provision under the Corrupt Practices Act against the wholesale bribery of the electorate, which is what such a proposition would amount to, and yet, if the State were trading, there is nothing legally against it although it would be ethically immoral—since any transaction of a Government department is a legitimate issue at an election. Similarly, the price of any commodity might become an election issue. A party might promise to reduce the price of some article in general use in the hope of winning votes, making up the deficiency by over-charging for something else.

It may also legitimately be argued that no country could afford to entrust all trading to the State unless every other country adopted a similar policy, but that future is sufficiently remote to render discussion of that issue unnecessary, particularly in the case of a country such as ours which can exist only so long

as it can trade in foreign markets. We must be able to sell our manufactures and coal competitively if we are to be in a position to buy cheaply overseas our food and raw materials.

The advocates of State-trading, who as a rule know little of the complexities of home and foreign trade, dispute the soundness of all such deductions. They claim that there is no reason to suppose that the State is not sufficiently resourceful to accommodate itself to new conditions, absorbing enough of the spirit of private enterprise to pass the ultimate test of State-trading, i.e. success. In this connection an appeal to facts can be made, for on more than one occasion, and in more than one branch of activity, the State has submitted to the test and has failed, even under the conditions of national emergency when it was served with zeal and loyalty by men of wide experience in business. We have evidence also from other countries where under different conditions a similar result was experienced.

The Post Office is a State monopoly, and its operations, so far as the discharge of purely postal business is concerned, are of the simplest, demanding little more than punctuality. It supplies no evidence in favour of the nationalisation of industry. What is its record? The Committee on Retrenchment of Public Expenditure, in its final report, signed amongst others by Mr. J. H. Thomas and Sir Leo Chiozza Money, stated:

‘ We have, however, been impressed by the fact that, of all the numerous services managed by the Post Office, hardly one shows any profit, except the letter post. The history of the telegraphs is

most unsatisfactory. They were taken over in 1870 at a cost (including capital expenditure on extension) of £10,129,687, in the anticipation that they would yield a profit to the State. After the second year of Post Office management the profit failed to cover interest on the capital outlay. Year by year the financial position has grown worse. In recent years the loss upon working has been not less than £1,000,000 a year, and this loss includes nothing for interest due to the State upon the aggregate losses of previous years. In the year 1911-12 the Post Office calculated the accumulated loss at £21,796,520, or double the amount of the original purchase money.

'We are informed that this unfavourable result is due: (1) to the considerable reductions of charges which have been made from time to time, sometimes with little or no regard to the prospects of maintaining a profit; (2) to the extension of the telegraph system to include areas and classes of business which had been neglected by the telegraph companies as unprofitable; (3) to the fact that the staff employed by the Post Office receive higher pay than was accorded by the companies to their employees; and perhaps also in recent years (4) to the increasing competition of the telephones with telegraphs.'

When the Post Office has gone beyond its sphere it has failed even more conspicuously, and the community as a whole has suffered. It has in recent years become responsible for the telephone service. Invaluable testimony on this branch of the Postal service has been supplied by the Select

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Committee over which Sir Evelyn Cecil presided. The telephone service is a monopoly and so operates under favourable conditions; its customers have no choice. Does it give an efficient service? A study of the correspondence columns of the newspapers supplies an answer to that enquiry. Why then does it fail to perform the first essential task of a State concern? The Committee's answer is that its management is stereotyped, unimaginative, unenterprising, not to say indifferent and careless. It is cursed with red tape, some of it of faded antiquity. The Committee at the outset of their report state that on this matter 'there is a marked practical divergence between the views of the General Post Office, on the one hand, and the opinion of the public and the business community, on the other.' That is to say this trading department does not understand its business, which is to give satisfaction to its millions of customers. The first recommendation of this Committee was one that had already been embodied in the report of a similar committee in 1898, which stated that 'the telephone service should in future be conducted under strictly businesslike conditions by a staff specially qualified for such a duty.' There, in a nutshell, is a complete justification of the opposition to an extension of State trading.

The glaring defects of the organisation were explained patiently to the department in 1898, and twenty-four years later nothing had been done, in spite of protests, public and private, in spite of Parliamentary criticism, in spite of loss of efficiency to the trading community. No reproach lies on the officials responsible for the telephone service;

they exhibit the defects of their qualities, being unfitted by training to run what the Committee described as 'an essentially commercial' service on commercial lines.

It has been placed on record that :

'The Post Office, when it took over the National Telephone Company's business, reduced the salaries of the higher officials and increased the wages of the ordinary telephonists and operators. The result of working the system by the Post Office was, however, not financially a success, for, while the National Telephone Company after paying a substantial sum to the Post Office for a licence to carry on their undertaking earned a profit, the Post Office working results are as follows, after charging interest at 3½ per cent. on the capital : A profit of £303,343 in 1912-13 ; a profit of £239,111 in 1913-14 ; a loss of £111,018 in 1914-15 ; a loss of £118,177 in 1915-16 ; a profit of £201,729 in 1916-17 ; a profit of £355,468 in 1917-18 ; a loss of £36,261 in 1918-19 ; a loss of £1,961,710 in 1919-20 ; and a loss of £4,721,970 in 1920-21.'

Much of the failure, in the Geddes Committee's opinion, has been due to failure to appreciate the need for development—in other words, a failure to take the long view of profits and expenditure, which, as we have just seen, it is impossible for the State to take. Yet it is precisely that failure which is responsible for the piling up of losses year after year ; but the greater loss has arisen from the

absence of facilities to the trading community, such as are enjoyed in other countries such as the United States. It is interesting to note that in Norway, where there is a State service, losses are also incurred, while in America, where the service is under private enterprise, it shows a profit, besides being cheaper and better. Only the fact that the telephone service in this country is a State monopoly has saved it from the fate of a mismanaged private service—bankruptcy.

Criticism of the Post Office and its telephones at first sight may seem to be a criticism of those who manage the services rather than the system of the management. It might well—were this an isolated example—be argued that the choice of managers had been unfortunate. That in itself would be a sufficiently severe criticism of State trading, for a concern that does not know how to choose its agents or chooses them by false methods is never likely to succeed. But when we find the same charge repeated in the case of other instances of State-trading, we may be allowed to conclude that there is nothing wrong with the agents, for often they were men conspicuously successful in private enterprise, but that what is wrong is something inherent in State-trading as such.

During recent abnormal years, for one reason or another the Government saw fit, or was compelled by circumstances, to undertake trading in a variety of spheres. In one form it merely controlled, in another it established monopolies of supply, and in a third it entered into ordinary competition with private firms.

During the General Election campaign of the

autumn of 1924 the Socialists put forward a specific demand for the Socialisation of food supplies. What light on this suggestion does the experience of war show? Mr. T. S. Catto, Chairman of the Allied Provisions Export Commission and British Ministry of Food in the United States and Canada during the war, related the story of food control in the years immediately after the war in a letter to *The Times* of October 15th, 1924. During the war all economic laws were suspended, private enterprise could not function, and the nation, confronted by the submarine peril, had to be fed by the State, however great the cost. But what happened after the Armistice? Heavy losses were incurred, and were due to an exhibition of bad management characteristic of all Government control in business affairs. The loss on requisitioned bacon incurred by the Ministry of Food between August 1919 and March 1920, was approximately £5,700,000. The cause was 'a well-meant but mistaken and immoral policy' on the part of the Ministry of Food.

' The Armistice took most Government Departments by surprise. My instructions so late as September or October 1918, were to lay out a programme running to June 1919. This was done. But, when the Armistice came, the Ministry of Food in London, finding they had considerable stocks in this country, thought they had a splendid opportunity to break prices in the United States and Canada—this in spite of the undisputed fact that prices had been kept at comparatively reasonable figures through the efforts of the United States Food Administration.

'I was instructed by the Ministry of Food in November or December 1918, to stop all buying. I protested against this as a breach of good faith and a mistake from a business point of view. I suggested buying should stop gradually and not suddenly be cut off. My objection was over-ruled. The result was a panic amongst packing-houses in the United States and Canada. Their stores were full of food supplies which they had expected to be taken by the Allies. They had been encouraged to prepare these, although there were no legal contracts actually obligating the Allies to take the supplies.

'In dealing with such quantities, it is plain supplies had to be prepared many months in advance, and the sudden cessation of buying caused a serious situation. The packers in the United States rushed to Washington and placed their difficulties before Mr. Hoover, then head of the United States Food Administration. The position was so serious that Mr. Hoover arranged credits for the packers and took their stocks off their hands for shipment to Europe for relief purposes. The Canadian packers brought so much pressure to bear on the Canadian Government and the Home Government that certain arrangements were made to help them over their difficulties, and some supplies were taken from Canada.

'It was on top of this situation that the Ministry of Food, when the food position again became critical in 1919, had to recommence Government-buying in the United States. They found no surplus stocks and store-houses practically empty. In addition, they found the packers resentful of the

treatment they had received and the difficulties they had been placed in, out of which they had only been able to extricate themselves by the help of their own Government. Is it to be wondered that the British Ministry of Food had to pay prices far in excess of what were ever paid during the war period ? '

What more condemnatory illustration of the failure of bureaucracy in trading could be supplied ? The attempt to break prices in the United States and Canada involved, in the first place, a breach of faith of which no first-class business man would have been guilty, and, in the second place, it involved the people of this country, the innocent victims, in enormous losses, and these were not by any means the only losses on food.<sup>1</sup> The incident furnishes an illustration of the tactics which the State is led to pursue owing to the short-sightedness and lack of experience of its servants. In buying and selling, State servants realise that they are at a grave disadvantage, particularly in foreign markets, and they are thus tempted to commit acts which they would spurn to countenance in their private capacities, but which they attempt to justify because they are the agents of a soulless organisation—the State. State-trading over a series of years would breed distrust abroad and might even involve the Government in disputes eventuating in war.

Much could be written on the extraordinary

<sup>1</sup> The Royal Commission on Sugar Supply showed a loss on its operations from 1914 to 1923 of £27,448,242, those of 1922 to 1923 being £736,750.

features of State control and the still more extraordinary methods adopted. We have the invaluable evidence of the official 'Trading Accounts and Balance Sheets,' covering a period when abnormal war conditions were no longer present to serve as excuse. Those for 1922-1923 are representative of a period when sufficient experience had been acquired to allow of the application of the same tests to the State as to the private trader, and permit us to judge very accurately the competence of the State to trade. From these records a few typical cases may be selected.

In 1920 the Admiralty undertook to build two oil tankers for a private customer at a total price of £620,000. Some 2,000 men were employed, and by March 2nd, 1922, a net trading loss of £208,275 had been incurred. The customer had produced evidence that private enterprise would deliver the tankers at the same price as was fixed by the Admiralty, that is to say, it was calculated that £620,000 would bring in a fair business profit. Consequently we may argue not unfairly that the costs of production by the Admiralty were very considerably greater than they would have been under ordinary private enterprise. The contract had been taken by the Admiralty for the specific purpose of proving that the work could be done in H.M. Dockyards as cheaply as in private yards, and when a comparison of costs showed clearly that the Admiralty were wrong, a whole series of excuses was offered to explain the failure. It was urged, for instance, that the increased expenditure was due to a desire to give employment, and the same excuse was given for the equally wasteful

construction of unsaleable locomotives at Woolwich Arsenal, but there was no reason why so laudable an endeavour should have caused such loss, and it seems to be an explanation that occurred, after the event, in the effort to cover mistakes of management inherent in State-trading.

Farming operations were conducted by the Ministry of Agriculture under most competent control, and quickly abandoned as unprofitable, it being realised that in this sphere, as in others, the State was under a handicap. The sales which took place when it was decided to dispose of the Pembrey estate in Carmarthen showed a loss of £27,000, on capital assets of £59,000 ; the accounts showing the total loss to be no less than £84,657. The Scottish Board of Agriculture showed a total loss on its operations of £159,000, all incurred through inexperience and lack of foresight. Then, again, the Disposals and Liquidation Commission undertook boring for oil and had to admit a total loss of £672,976.

A peculiar feature of the accounts is the operations of the Stationery Office, which showed on the whole considerable profits. When the Comptroller General demanded the trading accounts and balance sheets of the Publication Sales Office, he was informed that "the system of book-keeping in use was not one devised with a view to the compilation of such accounts and was not readily convertible." Comment surely is needless !

Turning to still another form of State-trading, every Government department is a trader in the sense that it buys raw material to produce goods, or manufactured goods to be used in its work. It

buys food and clothing for its soldiers, pens, ink and paper for its clerks, erects buildings for its staffs, buys machinery for its factories. The same is equally true of private enterprises, and the study of the balance between the minimum of expenditure and the maximum of efficiency is the test of business sagacity. It is unnecessary to allude to the many cases of unsupervised and uncriticised contracts ; the proceedings of the Geddes Committee are eloquent of the lack of ordinary business methods in preparing estimates of requirements. The Committee of Public Accounts states in the first sentence of its report of July 1924, that the noticeable feature of the accounts for the year 1922-1923 is 'the extent to which the requirements of the Departments in general have been over-estimated,' in spite of all warnings against a wasteful practice, for the inevitable tendency of a department, once it has obtained money, is to spend it. No less than 13.3 per cent. (£71,916,000) of the total Supply Grants thus fell to be surrendered to the Treasury ; in four successive years upwards of £100,000,000 was on the average voted by Parliament over and above what proved to be the requirements of the departments, and the nation was consequently over-taxed by considerably over £400,000,000 in that period. How much larger the economy in public administration would have been if the money had never been voted must remain a subject of speculation. The transparent fact is that the Departments concerned had shown neither care nor wisdom nor business sense of any kind in the preparation of these estimates—one of the most vital proceedings in trading.

These examples are taken from our own country, but others are furnished by foreign countries. We have referred already to the State fleets and their losses and to the State-owned railways. The French monopolies of tobacco and matches are notorious. On February 20th and 21st, 1924, the French Chamber of Deputies abolished the match monopoly. The Finance Minister stated that foreign matches were equal to, if not of better quality than, the French matches, and they were cheaper. That was because, of the six State factories, only two had been modernised. It seemed desirable, he urged, to introduce a system which would be more favourable to the consumer and more remunerative to the Treasury. He estimated the *additional* revenue from matches as twenty or twenty-five million francs a year.

The present estimated national consumption of matches is 48,000 millions per annum, but the six great match factories are so inadequately fitted with modern plant as to be unable to supply more than three-quarters of the output required ; the remaining 25 per cent. has always to be imported. The State factories are able to carry out the work of "tipping" the remaining 36 milliards of matches with sulphur and phosphorus, but it is beyond their powers to manufacture more than one-third of the wooden stems required for them, and so, of the remaining two-thirds, 50 per cent. are provided by French private factories and the balance purchased abroad. The main reason underlying this curious state of affairs is that *the private factories supplying the State are fitted with modern machines requiring only a single worker to operate them, while the State*

*machines are so antiquated as to necessitate seven operatives apiece !'*

As a consequence of these muddled conditions the net revenue obtained from the French match monopoly was in 1924 about £1,000,000 at that year's rates of exchange, while the revenue from the excise duty alone on matches in this country was that year £1,800,000. If in the past you have wanted a thoroughly bad match sold at a high price you have had to go to France in order to obtain it.

And so it is with every industry with which the State interferes, in this as well as in other countries ; its benumbing hand produces inefficiency, and inefficiency raises the price against the consumer. That has been the invariable record in every country, not excluding the Dominions. At the moment when British Socialists were putting forward their demand for 'the nationalisation of the means of production and distribution,' Trotsky, at the Tenth Communist Congress at Moscow, was confessing that 'the nationalisation of production has been a failure' and was admitting that 'freedom of trade must be realised immediately.'

Does the worker profit by nationalisation ? Russia, under State Socialism, provides, indeed, the most conclusive evidence, not only of the dire disaster to the general community that follows upon State trading, but of the loss suffered by the workers in the State factories. Conscription of capital and monopolistic production by the State involve also the conscription of labour. In the Russian Soviet Constitution, adopted by the Fifth All-Russian Congress of Soviets on July 10th, 1918, it was declared that 'with a view to the abolition of all parasitic

sections of society and to the economic organisation of labour, a universal industrial conscription is introduced.' Early in 1920—on January 28th—Trotsky elaborated this theory further. 'Labour conscription gives the State the right to tell the qualified workman who is employed on some unimportant work in his village, "You are obliged to leave your present employment and go to Samara or Kolomna, because there your work is required.'" He declared that 'under a unified system of economy, the masses of the workmen should be moved about, ordered and sent from place to place in exactly the same manner as soldiers.'

After visiting Russia in 1920, the Hon. Bertrand Russell, F.R.S., formerly Lecturer and Fellow of Trinity College, Cambridge, described the 'iron discipline' enforced in Soviet Russia :

'A sweated wage, long hours, industrial conscription, prohibition of strikes, prison for slackness, diminution of the already insufficient rations in factories where the production falls below what the authorities expect, an army of spies ready to report any tendency to political disaffection, or to procure imprisonment for its promoters—this is the reality of a system which still professes to govern in the name of the proletariat.'<sup>1</sup>

The Socialists of our own country protest that these are merely the mistakes of the Socialists of Russia and that they, when the time comes, would not repeat them. But if the State is the employer

<sup>1</sup> *Practice and Theory of Bolshevism.*

in essential industries, and the life of the community depends on the results of its production and distribution, it must have the power to enforce its will. Trade Unionism, as it is known to the British working-man, must disappear, and he must submit to a tyranny worse than anything known under the Capitalistic system in its worst days. And under the tyranny, production will fall off, because the will to work will be absent, and thus starvation conditions will be created and the economic power of the nation restricted—at last to disappear.

No Socialist can point to any State-trading enterprise in any country which has benefited producers or consumers. 'Production for use and not for profit,' of which they talk, is nonsense and dangerous nonsense at that. It is not difficult, with the resources of capital for the erection of factories and the purchase of machinery and with bodies of willing workers, to operate the machinery to make many things *at a price*; but the difficulty occurs when you attempt to sell the goods which have been made—and the difficulty is the greatest in foreign markets, without whose support the people of this country could not exist. Our industries must be so efficiently conducted, if we are to live, that we can sell overseas from year to year goods of the value of about £800,000,000, for only thus can we obtain food and raw materials.

The Socialist denounces profits, and hence his denunciation of the private trader; but it is the hope of profits which promotes efficient production. The basis of all successful trading is in profits. As Sir Ernest Benn has reminded us, profits can be

made in two ways, either by adding to the selling-price, or by reducing the costs of production. Additions to the selling-price can only be made when there is scarcity, and the present habit of the world in the direction of developing scarcity, limiting production and restricting exchange is creating innumerable opportunities for profiteers to add to prices.

*'Every act which tends to discourage production by anybody swells profits.* It is pathetic to the student of these matters,' he observes, 'to see the labouring classes deceived by people who ought to know better into believing that they can improve wages by limiting production. Exactly the reverse is the case ; but it is the fact that every such limitation adds to the chances of profit. Profits in the bulk—the best profits, normal profits, and the profits of times of prosperity—are made by reducing costs, a process which, once begun, generally improves wages. The whole tribe of economists from the earliest times have never been able to suggest an alternative to profits as a cost-reducer.

'Profit is really the cheapest thing we have ; it is the most powerful agent for economy that we yet know. We live, each one of us, by rendering service to our fellows. We live well or live badly, according to the opinions which our fellows form of the service which we render to them.

'Any scheme of things which eliminates profit robs the rest of us of the opportunity of expressing our opinion of the service which is offered to us.

Through profits we keep the producer in a position of subservience to the consumer ; without profits the producer would be top dog, and that is really the position that the Socialists desire to bring about.'

The theory of the State as a trader rests on a fallacious conception of human nature, with all its weakness as well as its strength. A man, whatever the class to which he belongs, will inevitably work harder for his own advantage and for the advantage of those he loves, his wife and family, than he will for a soulless State, however completely it may have been Socialised, and, in the result, his efforts promote the well-being of the whole community. The Socialist forgets that the industrial worker is not only a producer, but is also a consumer concerned in the price at which things can be made and sold. Lord Leverhulme has estimated that 'ninety per cent. of the consumers of this country are the workmen themselves,' and consequently, in the last analysis, inefficiency in industry under State control would bear most harshly on humble homes.

## CHAPTER VIII

### HOW CAPITALISM WORKS

WHAT would have happened a hundred years ago if this country had been a Socialist State, the stage-coaches, shipping, coal-mines, banks and infant industries having been nationalised? No mean part of the capital of the country would have been invested in undertakings directly threatened by the inventor; the State would have been the guardian of vested interests. Would the Government of the day have provided funds for laying railways, even if it had had control of all the land? Would it have encouraged the steamship as the rival of the sailing-ship? Would it have consented to finance the development of new coal-mines in advance of the demand? Would it have encouraged inventors who were turning their attention to improved methods of production in industry? Public opinion generally was opposed to all these developments, and every Government is, in the last analysis, the slave of public opinion. The idea of railways being laid was ridiculed; few persons had a good word for the steamship; the production of coal was held to be ample; industry generally was thought to be doing very well without machinery; and the workers were absolutely opposed to better methods of production, even going to the length of rioting and destroying the new inventions.

It is well for the workers of this country that a century ago this was not a Socialist State, and that men of imagination and courage enjoyed freedom to adventure their capital in the industrial revolution which was at last to provide work for a population increased more than fourfold. It is in the light of the conspicuous triumph of capitalism, under the impulse of private enterprise, that the Socialists demand that individual initiative shall be placed in State shackles. The theory is that we have reached the end of every mechanical and scientific development, and that the country stands no longer in need of the resourcefulness of the individual, with long vision, who ignores the disappointments of the present, and glances forward with confidence to the successes of the future. And yet we live in an age of miracles, when the scientist and the inventor are still pursuing their conquering way !

In its most unknowing form, the charge against the capitalistic system which is put forward by Socialists is that it has not made its due contribution to human happiness, and that we could have done much better under State Socialism, the State financing, directing and controlling all the means of production and distribution. The most violent enemy of the modern order admits that the existing system is of comparatively recent appearance ; he would agree that England in the eighteenth century bore little or no trace of it. If, then, statistical records existed of how wealth was distributed in Queen Anne's reign, how would they compare with those with which Mr. Philip Snowden has made play from time to time ? The mere absence of such figures does not in itself make the answer doubtful.

They would certainly show that wealth, much less wealth than exists to-day, was then far more concentrated than it is to-day ; that there was a small class of nobles and landed gentry ; that beneath them there was an equally restricted class of bankers, merchants, professional men and farmers ; and that the bulk of the population were poor, for the most part desperately poor, though the population of the country was small.

General statistics of a rough-and-ready kind, such as Socialists usually employ, are attractive ; for they often have a logical argument on their side. If the figures and returns of some particular industry are advanced in refutation, the Socialist who rests his case upon synthetic calculations answers that it is no use to argue from the particular to the general. That may be true in some circumstances, but it depends upon the argument which is being supported. In the present case it is that capitalism has not helped to make people happier ; and happiness is not a measurable thing. To attempt to prove such a thesis from income-tax returns is misleading ; they are helpful if used in moderation, but that is all. To regard them as positive proof, as Socialists urge, of a contention so wide, so sweeping and so philosophical, is the merest folly.

None the less, enough facts are known about the methods under which industry advances, and the consequences of its progress upon the lives of many thousands of human beings, not only to meet the Socialist charge, but to answer it. This, however, can only be done by reversing the process of argument, analysing the growth of particular concerns, examining their most intimate human consequences

and applying the results obtained to the whole enquiry. The line of argument is, then, roughly this. If leading industrial concerns under the capitalistic system have provided employment for persons who would not otherwise have had it, and the produce of their invested capital has made some contribution to art, science, education and charity, then it may be justly claimed that an extension of human happiness has taken place, which, if it does not consist in any one of these things, is at least connected with them. More than that, it can be argued that, if large industries have achieved these objects, lesser ones have done so in a proportionate degree. For every one industry which records its achievements in printed statistics, hundreds exist which do not. The process of making capital productive, and the consequences of doing so, are, after all, the same, though they differ in degree. Have leading industries in this country made under private enterprise those contributions to the social order which entitle them to claim that they have increased the sum of human happiness? As has already been said, only the most intimate details will serve in such an enquiry.

About 1880 the present Lord Leverhulme, who had started life in humble circumstances, opened a soap-making concern, which had been unsuccessful in the past, with a capital of about £4,000. In forty-four years this concern has expanded to a vast organisation, with world-wide ramifications, which provides employment for some 40,000 white men and women, apart from 25,000 blacks. As a great many of those employed in the business are heads of families, it is safe to multiply these figures

by four, and to conclude that about 160,000 souls in this country are maintained directly by the business organised by this captain of industry, who entered on his career without any adventitious aids. If it is further assumed that the original number of employees was about 50, it is a justifiable conclusion that about 159,200 persons have shared, in varying degree, in this vast development. No fewer than 18,000 of the employees of the firm are co-partners, with an interest in the firm's prosperity having a value of £2,000,000.

It would, however, be unfair to leave the figures as they stand. Some 4,000 tons of soap a week are transported by road and railway to every part of the civilised world, which means that every day some thousands of transport workers, railwaymen, stevedores, ships' masters and crews, draw some part of their employment from the activities of the industry. It would be idle to estimate this second group in figures; but, even with this addition, the computation is incomplete. Of the 40,000 white employees, practically all are housed in dwellings expressly erected for them. The progress of this original business has, therefore, given employment to countless artisans of all trades and professions, to numberless casual labourers required to erect, *ex nihilo*, a model town about the size of Oxford or Cambridge—Port Sunlight. Without, therefore, uttering a syllable upon the enormous social movements which the business has inaugurated or assisted, without mentioning its incomparable contributions to social welfare—its art galleries, its hospitals, and its schools—it is perfectly safe to say that it has beneficially affected

the lives of 2,000,000 human beings ; and that about 200,000 persons have at all events found the means of pursuing happiness by its growth and development, the outcome of one man's vision, intellect and industry. Lord Leverhulme has set forth with characteristic lucidity his philosophy of life in relation to the production of wealth in his stimulating book *The Six-hour Day* (George Allen & Unwin), which may be commended to all who talk of the failure of capitalism.

It has already been said that the process of developing capitalistic enterprise does not vary in principle ; in order to press the assertion home one cannot do better than to seek out the origins of an industry quite different from that one which has just been examined, and trace its growth. The development of Lord Leverhulme's vast concern owes its genesis to a perfectly simple fact ; its originator assumed with confidence that soap could be produced more cheaply than was being done, and in larger quantities. In the middle of last century, the modern ammonia and soda industry was founded in the same way. The original discovery was, it is true, arrived at more elaborately. Experimenters in France had been working on the problem since the latter part of the eighteenth century, and it was not until well on in the nineteenth that Dr. Ludwig Mond and a Belgian industrial magnate, M. Solvay, really solved the problem of producing the product in large quantities at a low price. What were their beginnings ?

Ernest and Alfred Solvay founded their business in 1864, with a capital of about £5,500. Some years later Mond obtained a licence to begin production

by the same process in England, in return for which he was to pay a royalty on every ton of stuff manufactured ; the two companies, British and Belgian, were to communicate all developments and inventions to one another. The capital invested in Mond's works was rather more than that of the Belgian company. A residential property was bought and restored for about £19,000 ; and a further sum of £12,000 was borrowed from a firm of solicitors ; other loans from the family and from friends amounted to about £17,000 more. The total capital outlay was thus about £50,000, and it was adventured in a development in which few men had then much confidence.

The actual facts of that development are these : when the Solvay business was started, the whole world consumed 300,000 tons of soda annually, and paid for it at the price of about £13 per ton. Ten years later the world's consumption had increased by over 80 per cent., and stood at 525,000 tons ; the price was then £11 4s. per ton. At this point a new process of development asserted itself. By patient and laborious research it had been discovered that soda could be produced by a new method ; and a higher-grade soda, known as ammonia soda, was being placed on the market. The original firms were able to transform their mechanism and their plant, and to adjust themselves to the new invention, and with what results to the consumers ? In 1885, out of a total of 800,000 tons of soda, 365,000 were made by the new process, and the price had fallen to £4 16s. per ton. At the beginning of the twentieth century 1,800,000 tons of soda were produced per annum, at an

average price of £3 10s. per ton. In other words, the immense commercial development which lay embedded in a laboratory experiment, and which had been exploited by private enterprise, has multiplied the world's soda consumption by six, and divided its cost by three. If anyone asks, What benefits has this development conferred? the answer is that it has profited every industry connected directly with the production of glass, paper, woollens and textiles, and that millions of men and women are enabled to live at a higher standard of comfort.

As in the former instance, a glance should be made at the indirect consequences. In the first place, the company's products were shipped to Liverpool—the nearest port of shipment—in hired craft. In 1889 it formed the first nucleus of a river flotilla, which grew by progressive advances to a commercial fleet of 18 steamers, 4 motor-boats, 5 liquor-boats and 8 barges. To this spreading circle of consequences must be added that which was cited in the case of Lord Leverhulme's vast enterprise. Every year 1,800,000 tons of product have to be handled by railwaymen, carters, stevedores and ships' crews, and carried over the oceans of the world in ships. Every year countless miners have to cut and carry the coal which makes the transport possible, and the oil companies make their additional contribution of lubricating matter, which renders the intensified transportation possible. The consequences to the house-building and road-making trades are so identical in each case that it would be mere repetition to restate them.

These facts repeat themselves for every business

which has successfully emerged from its initial stages to a profit-making concern. If a lithographer's house in the East End devised a more economic form of inking and printing ; if a village joinery contrived to instal machinery and increase production ; if a dairy-seller found some means of making more butter than his rivals, or of distributing milk more quickly ; if a bootmaker devised a way of quickening the productive processes of his trade, the result would always be the same under private enterprise—an extending circle of direct and indirect employment would be created, never ceasing until every kindred trade affected in the transport and delivery of the goods had paid its additional contribution to the original progress.

Many other instances of the working of the capitalist system might be quoted, some with the glamour of the small beginning—the true ' merchant adventurers ' with their tiny capital, that has multiplied itself, and of which so large a proportion has gone to ameliorate the lot of the workers. In almost every case it is remarkable that the founders of the greatest firms were working-men, or at least men of lowly origin, who brought more brains than capital to their adventures.

The manufacture of chocolate and biscuits is perhaps among the best-known instances of such industries. Everyone who travels by the Great Western Railway knows the Huntley & Palmer ' playing-fields ' just outside Reading. Over 7,000 operatives are employed in this firm's works ; their interests are studied, they are provided for in old age, and long service is rewarded. The magnificent cleanliness and healthiness of the great factory

are proverbial. The business started from a small enough beginning as to capital, but was endowed with the very capable brain of George Palmer, who revolutionised the trade by the introduction of machinery, utilising the practical experience of Thomas Huntley, a confectioner already established in Reading. No one can suggest that the Palmers have enriched themselves unjustly at the expense of their employees, or that their factory does not add largely to the happiness and welfare, not only of the very flourishing town in which it stands, but of the surrounding agricultural population. Imagination staggers before the idea of the gallons of milk from over 10,000 cows, and the eggs of nearly 150,000 hens, which are used annually in the factory.

The Peek Frean Company also started from a very small beginning, employing originally about 300 hands, and progressing quietly and steadily, until the dramatic moment came when the Rothschilds sent the order to revictual Paris after the siege of the city during the Franco-Prussian War. To-day, an order to provide 60 million biscuits (4,470 tons) in three weeks would not seriously startle the firm, but at that time every oven in existence had to be kept working day and night in order to ship the 4,470 tons to starving Paris in the stipulated time. The business is run on the same progressive lines as Huntley & Palmer's, both in London and at Bedford, and now provides employment for over 4,000 people, who form a happy and well-cared-for community, with special facilities for health and recreation, provision being made for sickness and old age.

There is in such firms, progressive though they are,

a touch of the ideal side of feudalism—the side that made one family of the dwellers on an estate, with the 'lord' acting as the father, responsible for the well-being of his 'villeins,' and the labourers no mere serfs, but children, sharers in all the manorial traditions, glorying in their lord's successes, and jealous for the honour which was reflected on themselves. Competition may be an evil, but it makes for efficiency and the happiness that comes from the well-fought fight, the well-played game ; yet it is probably true that the best efficiency in a business is attained where every worker has some direct interest, not only in his own job, but in the success of the whole concern in which he is employed. Perhaps the best illustration is a ship, where the bare safety of every member of the crew depends, not on one, but on all.

The Rowntree Cocoa Works have made a practical effort towards the joint control of their industry, and the management, like that of the Lever works, is endeavouring, in fact, to make 'partners of labour.' Their business was started so long ago as 1725 by a woman, Mary Tuke, who was a 'Freeman' of the city of York ; and her great-nephew, Henry Tuke, was possibly the first of the family to begin the manufacture of cocoa and chocolate—about 1785. The first Rowntree took over the cocoa business, apart from tea and coffee, in which the firm had formerly dealt, in 1862. As usual, the introduction of machinery at that date revolutionised the business. Before 1862, although trade had flourished, the total amount of manufactured cocoa was little over 12 cwt. a week. To-day the firm gives employment to over 7,000

persons, and sends its products all over the world, again employing countless workers in transport, apart from the thousands overseas, who cultivate, pack and ship the cocoa. The ramifications of modern industry are indeed endless !

In connection with this great enterprise a singularly complete scheme of co-ordination between employers and employees has been evolved. Practically every contingency in the life of every worker is covered—recreation, education, holidays, sickness, old age and death. The scheme is one of the most remarkable which has been adopted by any firm. It is described by Mr. B. Seebohm Rowntree in a brochure entitled *The Human Factor in Business* (Longman, Green & Co.).

The Cadbury business, as world-wide as the other, did not prosper at first. On the contrary, in 1861, instead of making a new start with machinery, it was going down-hill, with little chance of recovery. It began as a tea-and-coffee business in Birmingham in 1824, and extended to cocoa and chocolate (made with a pestle and mortar) in 1825. In 1861 only 11 girls were employed, and were each paid a nominal wage of 4s. 6d. a week. The consumption of raw cocoa was so small that Mr. George Cadbury estimated afterwards that the stock on his premises in 1913 would have lasted about 300 years. Then the needed brain-power was brought to bear on the languishing undertaking. The two brothers, George and Richard, who eventually re-made the business, had only a very small capital to devote to it ; they worked from 7 a.m. to 9 p.m. for years ; and while their employees received but a pittance, which they could hardly afford to pay, they themselves were

losing heavily. It was not till 1879 that they had made a good enough start to extend their works, and move from the town to the country, chiefly because they longed to secure a better and healthier environment for their workers.

All the world knows now about the Bournville estate and the really model conditions under which the Cadbury workers live. At the end of 1861 there were 14 employees; in 1879, when the move to Bournville was made, 230; to-day the number employed in the works is nearly 10,000, not including the branch factories. It is no mean record in the lifetime of one man to be able to say, as Mr. George Cadbury could say, that the 10,000 people employed by his firm live under conditions which can be described as almost Utopian, with provision for education, social welfare and intellectual development undreamed of fifty years ago. In his *Life of George Cadbury* (Cassell), Mr. A. G. Gardiner has shown what the relations of capital and labour may be under the capitalistic system. Mr. Cadbury was a pioneer in every phase of welfare work.

Here is another illuminating record of the fruits of inventive genius, thrift and industry. In 1879 Mr. Hans Renold bought the plant of a bankrupt concern whose business consisted of the manufacture of chains of quite a crude type for application to textile machinery. Mr. Renold built on these insecure foundations a great business, a monument to one man's skill of brain and hand. He was the inventor of both the 'roller' and 'inverted tooth' types of chain and the pioneer of modern chain-making. The business at Manchester was developed without the aid of outside capital, because it was

Mr. Renold's policy always to re-invest the great bulk of the profits made in the concern, the capital of which is now over half a million pounds. The driving chain-making industry as known to-day would never have been developed on a nationalistic basis, because it was something entirely new and even yet has only touched the fringe of possibilities. Research and initiative are still needed, and these would certainly not be forthcoming under any scheme of Socialised industry.

There is not space to enter into all that has been done under private enterprise by other industries of world-wide fame, of which perhaps the manufacture of Portland cement is one of the most remarkable. Very few people in 1824 would have claimed any importance for Joseph Aspdin's invention, and Aspdin himself probably never realised its potentialities. What could this simple working man achieve? Yet, a century later, fifteen prominent cement manufacturers from the United States and Canada travelled to Leeds to join with the leaders of the British cement trade in commemoration of the pioneer of the vast industry which now profits the whole world. There seems to be no end to the benefits conferred on modern industries by the use of cement. America alone produces 50 million tons a year. It is possible that the housing problem, which is of such pressing importance in England, may yet be solved by the building of concrete houses. The architect of the future may be able to start a new era of architectural art in the 'concrete age'; and the revolution which has taken place was due to one man, and that a man without capital or social

advantages of any kind, but possessing merely the enquiring mind, a great stock of energy, and a character which inspired confidence in his contemporaries, and led them to hazard their savings in his great adventure.

The day of small individual beginnings and extended labour is not over, as the development of the film industry attests. Further progress in industry depends on the freedom of the individual from State interference, which checks all enterprise, tends to reduce all men to a common level and puts the brake on every new development. Mr. Asquith has reminded us that 'nationalisation would enthrone the rule of bureaucracy, tend to stereotype processes, paralyse individual initiative and enterprise, reduce output, and sooner or later impoverish the community.'<sup>1</sup>

This analysis shows clearly that one part of the charge against the modern industrial system is fabulous. Nobody in his senses can say that such a process of industrial development as has taken place in the past 100 years has not mitigated poverty. If, as statisticians assert, the proportion of really poor people to the total population is less than it was in the agricultural period of British history, it is the progress of industry, and the development of the capitalist system, which have worked the change. That system is now about 100 years old, and it can claim that it has wrought miraculous benefits. The feudal system was undoubtedly productive of great improvements in European society ; but its achievements were slower ; the most minute research has discovered no real progress in the condition of the

<sup>1</sup> Election address, Paisley, February, 1920.

feudal underling until the system had been established for more than 300 years. The capitalist system can claim that, in the first 100 years of its existence, it has wrought a profound and beneficial change in this little country, as well as in many parts of the Continent of Europe ; and has pointed the way to a social and intellectual development at least as great as its material expansion.

Private enterprise has enabled the population of this country to increase fourfold in the space of 100 years, and simultaneously with the growth of population the standard of living has steadily risen. The improvement in industrial and social conditions has come as a result of individual effort on the part of a comparatively small number of individuals. In making their own fortunes, they have contributed to the welfare of others by enlarging the field of employment and developing means of production, which have enabled them to pay higher wages and reduce the hours of labour. Private enterprise, in association with the sane Trade Unionism of earlier days, has promoted a revolution in ideas of work as well as of leisure. It has enabled us to fight and win the greatest war of which history holds any record, and it will yet enable this country to overcome all its post-war troubles. Capitalism, yoked to private enterprise, offers the only hope that individual genius will have scope to cure the ills of which Socialists complain.

Miracles have been worked in the past 100 years or so, but there is every justification for believing that yet other miracles will be witnessed in the present century if, in ignorance, we do not smash to atoms the miracle-working machine.

## CHAPTER IX

### THE TRIUMPH OF CAPITALISM

THE success of what is described as the capitalistic system is attested beyond possibility of honest dispute by the history of this country since the Industrial Revolution, which followed upon the introduction of steam-driven machinery and the development of the factory system. For centuries the population of Great Britain had been almost stationary. It amounted to only about 10 millions in 1801, and the standard of living of the bulk of the population, dependent, in the main, on the land, was a low one. No change occurred in the potential resources of the country, and yet by 1924 the population had increased to 44 millions—something more than a fourfold expansion—which was accompanied by a notable rise in the standard of living of all classes, and especially of manual workers.

Nor does this statement express adequately the enormous increase in the numbers of our race under the capitalistic system, which has taken place in a little more than a century, for that period has witnessed also the continuous casting off of swarms from the parent stock to the Dominions of the Empire, and in greater numbers still to the United States of America. The total of these emigrants in the past century numbered many millions,

in the main the offspring of working-class homes, who have made no mean contribution to the spread of liberal civilisation overseas, establishing in the lands of their adoption much the same capitalistic system as has flourished in these islands.

How is this great increase to be accounted for? Of course, knowledge of the laws of health, fostered by enlightened statesmanship, has visibly improved; great epidemics are neither so frequent nor so deadly as they were; public sanitation and the care of infant life have made immense strides. These matters will be dealt with in greater detail later on, but the well-recognised law is that population rises or falls with the means of subsistence. One consequent tendency, of course, is to maintain a considerable portion of mankind on the border-line, where there is just sufficient food to keep body and soul together. But it is, nevertheless, true that each age and every country has a roughly recognised standard of living, with a tendency to rise, and that the majority will not or does not increase its numbers to the point beyond which its well-being must sink below that standard. Moreover, in each generation the wants, physical and mental, of mankind tend to increase, and with the increase of wants there must be increase of production relative to numbers to satisfy them. Think of some of the things which were unknown, or almost unknown, in Queen Elizabeth's day, which are now among the common necessities of life: tea, coffee, cocoa, tobacco, potatoes, tomatoes, foreign fruit, cotton goods, soap, among the ordinary articles of domestic use; to which may be added such things as cheap books and the

newspaper press, the 'picture palace,' thronged whenever the doors are opened, means of quick and easy transport, from the bicycle to the railway train and motor-car. The catalogue of the triumphs of the capitalistic system, which is one of adventure in search of better living, might be almost endlessly prolonged. That such things are now at the service of all, while at the same time the number of the population has prodigiously increased, shows that the wealth of the country has grown during the period in geometrical rather than arithmetical progression.

The Census of Occupations bears its evidence to the triumph of capitalism. When Socialist leaders—assuming that every Trade Unionist is a Socialist—boast that they represent 'the workers,' do they note that the Trade Unions count less than 4,500,000 members,<sup>1</sup> whereas upwards of 12,000,000 males and 5,000,000 females are engaged in earning their livings, apart from the 10,500,000 women who are recorded as retired or not gainfully occupied—these women including housewives who are very much concerned with the stability of our social order? How would Socialists adjust these facts to any plan of a Socialist State:—

- (i) That the biggest industry in this country is that of 'Personal Service'?

The army of people catering for the personal comforts of their fellow-creatures, which includes the whole gamut of servants and people employed by institutions, clubs and hotels, number 1,676,425 females and 339,944 males. Indoor

<sup>1</sup> The membership represented at the Trade Union Congress in 1924 was 4,328,235.

domestic servants number 1,148,698 women and 61,006 men. What would happen to these people in a Socialist State?

(2) That there are more people engaged on the land than in the mines and quarries?

Agricultural occupations employ 1,171,298 males and 83,052 females. Mines and quarries engage 1,061,749 males and 3,364 females. Agriculture is an 'unsheltered' industry—exposed to the full blast of foreign competition.

There is no occasion to apologise for the capitalistic system. It must be judged by its results. This country, with no richer resources than in past centuries, and with an area of less than 90,000 square miles, at the present day not only provides life for a much greater number of the human kind, but a much better and fuller life for that increased number.

What is the great and fundamental change in the conditions of life to which this improvement may be traced? The England of Tudor times had felt the impulse which came from the expansion of the world by the discovery of the Americas and of the passage round the Cape of Good Hope and Cape Horn. The discoveries of Galileo and the system of Francis Bacon had set men's minds in the direction of scientific learning. But England remained all through the seventeenth century, up to the middle of the eighteenth, an agricultural and pastoral country. 'Production for use and not for profit' was the rule; the land was cultivated on the system known as 'subsistence husbandry'—that is to say, each man produced what he

required for the maintenance of his family, with a surplus out of which he paid his lawful dues to the State, to the lord of the manor, to the church, and so on, exchanging the rest for such goods or services as he required from the village tradesman and the little luxuries of foreign production that he could obtain from the neighbouring market town. His house was built, often by his own hands, of local material, and thatched with straw from his field or reeds from the river-bank. He malted his own barley and brewed his own ale ; his wife and children baked the bread, and spun and wove the wool and flax of his own growing into cloth and linen.

It is true that a thriving commerce was growing up in the ports. The merchants of London and Bristol prospered and grew rich ; the goldsmiths, in particular, who were in some elementary sort the bankers of the time, financed the undertakings of the merchant-adventurers in their world-wide quests and received their reward in the precious metals which, according to the economic ideas of the day, constituted the sole source of real wealth. The Merchant Navy also grew in importance during the last quarter of the seventeenth and the first half of the eighteenth century, and especially after the Dutch wars of Cromwell and the later Stuarts, which established the English in place of the Dutch as the 'waggoners of the world.'

Of manufacture there was comparatively little. Some portion of the cloth woven in cottage homes was bought by travelling factors, and by them marketed. The weaving of fine cloth in hand-looms was carried on in the eastern counties, in

Yorkshire and in the west, and this cloth constituted the main exportable commodity. The smelting and forging of iron, once a monopoly of Sussex, spread during the latter half of the seventeenth century and early part of the eighteenth to Warwickshire, the Forest of Dean and the North, thanks to the discovery that smelting could be carried out with coal and lime in place of the rapidly diminishing supply of charcoal from the oak forests of Sussex. Coal at that time was worked chiefly from outcrops by means of tunnels bored into the hillsides.

The nation has been led by Socialists and others to think of this country as it existed a hundred years ago, when Capitalism came to its birth, as a singularly pleasant, contented and happy place in which to live. It is conceded that there were black spots, but, generally speaking, the population of about ten millions was well off. What are the facts? In the first place, this comparatively small population lived on or by the land. Its foreign trade was of negligible proportions, amounting as late as 1830 to only £90,000,000, including exports and imports, as compared with upwards of £2,000,000,000 in 1924. Those figures illustrate the change which has occurred in the economic condition of the country in the past century, leading to something more than a fourfold increase in the population. In 1824 the mass of the people existed in poverty, as contemporary records reveal. The workers generally had no votes; they were not permitted to combine for improvement of their lot; the poor law was a byword; and owing to recurrent epidemics they died off like flies. It

was in such conditions that the Industrial Revolution, supported by capitalism, came about.

Under such circumstances life was practically stagnant.<sup>1</sup> The eighteenth century had half-sped its course before there was a perceptible alteration. Then the increasing supplies of raw material from overseas, and the demands of the settlers in New England and the planters and traders in the West Indian islands and India, produced the first symptoms of a change. The raw cotton of America, the silk of China, the sugar of the West Indies and the jute of India began to flow into the country under the influence of the initiative of capitalists, and to turn men's minds from the conception of gold and silver as the true elements of wealth. A tendency developed towards a concentration of industry in the north, and especially the north-west.

As yet, however, manufacture was generally carried on in the home, and by means of the spinning-wheel and hand-loom. The invention of industrial machinery, and particularly of mechanical power for driving it, may be said to have begun when Kay invented the 'flying shuttle' in 1733. This was followed by the inventions of Hargreaves and Arkwright between that date and 1770, and of Crompton, who produced the 'mule' in 1799. In 1771 a large mill at Cromford, in Derbyshire, was driven by water power, and within the next twenty years many others were established, driven either by water or by crude steam-engines invented during that period by James Watt.

To these instances of the application of science and invention to the processes of manufacture must

<sup>1</sup> In 1750 the population of England was 6,517,035.

be added improvements in communication and transport due to the same agencies. Up to the middle of the eighteenth century roads can hardly be said to have existed in England. The pack-horse was almost the only instrument of transport. But in the latter half of the century Metcalf, Telford, the son of a Scottish shepherd, and McAdam, with the capital which was placed at their command, revolutionised the methods of road construction. At the same time the inland waterways of the country were constructed on the initiative of the Earl of Bridgewater, who employed James Brindley to construct a canal seven miles long from Worsley to Manchester, thus connecting his coal-pits with that town. In a few years canals were constructed joining the Mersey to the Trent, the Trent to the Severn, and the Severn to the Thames—all of them promoting, directly and indirectly, employment for large numbers of men.

The way was now open for that great outburst of manufacturing energy which we call the Industrial Revolution in all respects save one, but that one exception was vital. Under the system of 'subsistence husbandry,' the population swarming to the factories of the north could not be fed. These industrial workers had to live in towns and, even if they had had access to land, could no longer devote their time to growing food for themselves, and imports of foreign foodstuffs were as yet almost unobtainable. A parallel and complementary change, therefore, necessarily came over British agriculture. The only way to meet the situation, created by the increased number of consumers who were not producers of food, was to increase

the productivity of the soil, or, in the words of Arthur Young, 'to make two ears of corn grow where one grew before.' The old system of communal cultivation did not suffice. The nation could no longer afford to leave one-third of the land fallow each year. Fertility had to be stimulated, and the artificial stimulation of fertility involved heavy expense. Hence it came about that the common fields were enclosed, and communal farming for use gave place to individual farming for sale—in a word, to the capitalistic system as applied to agriculture.

Enclosure Acts were not a new thing in the latter half of the eighteenth and first quarter of the nineteenth century. Enclosures had been going on since the time of Elizabeth, and even before, for it was realised that land was valueless until mind and muscle had drilled it to supply the needs of humanity. But the wholesale change of system belongs to that epoch. There was, no doubt, much injustice, and there were many protests, but on the whole the change achieved its object. Food was grown and carried to the north, which not only enabled the growing population of the manufacturing districts to live, but introduced a variety into the national diet, especially by the cultivation of vegetables which had been almost unknown before. Moreover, the introduction of winter foodstuffs for flocks and herds, due to the experiments of Coke of Norfolk and others, by preventing the autumn slaughter of cattle, which had up to then been necessary, greatly increased the dairy products, and made fresh meat obtainable all the year round.

The Industrial Revolution of necessity involved

the growth of what is known as the 'Capitalist System.' Three conditions were essential to manufacture if it was to supply the demand arising for British goods from all over the world :

(1) Advantage must be taken of invention ; that is, costly machines must be used for cheap and rapid production.

(2) Raw material must either be obtained from abroad (e.g. cotton) or must be raised by expensive processes at home, and purchased from the producers (e.g. coal and iron ore).

(3) Money must be available to pay the workers in advance of the sale of the products—perhaps many months afterwards.

For all these purposes the manufacturers had either to possess themselves, or be able to obtain, 'capital'—that is to say, they were compelled to make savings themselves, or to obtain the use of the savings of others, to apply to the purposes of further production. It is not a question of whether the capitalist system is ideally the best. It is a simple and self-evident fact, recognised even by the more honestly-minded Socialists, that under the conditions existing when industrialism started, without the capitalist system it could never have started at all.

The employers of these early days were hardly to be distinguished, except in enterprise, courage and initiative, from the men they employed and beside whom they lived and worked. They had, as a rule, themselves worked the old hand-loom, had saved a little money by self-denial, and had been able to instal machines, and thus increase the demand for labour. Their resources were barely

sufficient to meet their weekly wage bill, yet there was a continually expanding demand, on the one hand, for the products of their industry, and, on the other, an ever-increasing supply of labour clamouring for work. The demand for goods could not be met, nor the need for employment satisfied, unless new buildings were erected and more machines installed. This could not be done without saving, and saving could not be made unless running expenses were cut very fine indeed. During this period the conditions of industry, when, it may be generally said, working-men became the employers of other working-men, were certainly far from ideal. The current economic ideas of the day, based on Adam Smith and the early economists, did not tend to humanity in industry. The evils of the time were due, in the main, to the inexorable march of events, which had gone beyond the power of human organisation. As capitalism grew in strength, a steady amelioration took place.

At first, however, the growing demand for labour produced a system of apprentice slavery so revolting in its details as to be almost unimaginable in the England which was at that time reforming prisons and abolishing the African Slave trade. Pauper children were indentured in gangs to the eager factory-owners. The apprentices worked for sixteen hours a day, frequently with irons riveted on their ankles to prevent a possible escape. Mrs. Browning has pictured their hopeless fate in *The Cry of the Children*. Mr. M. T. Sadler, an overseer of Dundee, described their condition as follows :

‘There were a great many children in proportion

to the number of adults ; most of them were orphans. There were some of the orphan children from Edinburgh who had been in the mill, I believe, from four to five years. The children were incapable of performing their day's labour well towards the termination of the day ; their fate was to be awoke by being beaten, and to be kept awake by the same method. They were guarded up to their bothies to take their meals, and were locked up in the bothies at night, and the master took the key away with him to his bedroom ; they were guarded to their work, and they were guarded back again ; and they were guarded while they were taking their meat, and then they were locked up for rest. They were not allowed to go to a place of worship on the Sunday. There were twenty-five or twenty-six of us together. The children and young persons were sometimes successful in their attempts to escape from labour and confinement. I have gone after them on horseback and brought them back myself. Those brought back were taken into the mill, and got a severe beating with a strap ; sometimes the master kicked them on the floor, and struck them with both his hands and his feet. Those who had made engagements for any length of time, when they ran away, the master, if he could not find them before they got home to their relations, if they had any, he sent after them and put them in gaol. I knew a woman put in gaol, and brought back after a twelve-month, and worked for her meat ; and she had to pay the expenses that were incurred.'

Even when Queen Victoria came to the throne a large proportion of the underground workers in the mines were less than thirteen years of age ; ' some of them began to toil in the pits ' when only four or five, many of them between six and seven, and the majority were not over eight or nine, girls as well as boys.

At this very time Great Britain was by Orders in Council (November, 1831) restricting the hours of work of adult slaves to nine hours a day, and of child slaves under fourteen years of age to six hours a day.

Under the insanitary conditions which surrounded the wretched children both in the factory and in the barracks (where they slept by relays in filthy beds which were never allowed to cool) epidemic diseases raged. The first impetus towards reform was inspired by dread of the conveyance of disease from these apprentice fever-nests to the general population of Manchester, and Parliamentary action was taken by the passing of the first British Factory Act in 1802. It was a very mild measure providing (much as in the first prison legislation) for the use of whitewash in factories, for proper clothing, feeding and instruction of apprentices, for the reduction of working hours to twelve and for the abolition of night-work of children. But it established the far-reaching principle of the right and duty of the State to interfere between employer and employed, and it was the beginning of the long series of British Factory Acts which were to prove of such far-reaching social significance for the protection of health of the industrial worker. In 1837 the Statute-Book contained no general

law of sanitary intention except an Act providing for Quarantine. This Act and an annual vote of £2,000 for furnishing the public with vaccine lymph were all that the Central Government had to say in regard to the Public Health ; and Local Authorities had only the most indefinite relation to it. In 1843 a Royal Commission on the health of towns and populous districts was appointed. Its reports, issued in 1844 and 1845, initiated the movement for water supply and sewage disposal throughout the world.

Conditions in the large cities were no better than in rural districts. Even in London a public water supply was available only in certain districts, and was turned on only at certain hours. It is recorded that in 1847 in a district, typical of the poorer quarters, 'the supply was very bad ; it was an intermittent supply from the water company, it was distributed in courts by stand-pipes on intermittent days. The fatigue of fetching it was so great that they only used it for purposes which they deemed of absolute necessity, such as cooking ; they rarely bestowed much of it on their own clothes or persons. I remember it well, as a fact, that the water, from being kept so long, and absorbing the impurities of these places, smelt very bad. I know it to be a fact that the water for all domestic purposes was pumped into many of the houses from the parts of the river where the most abominable impurities abounded.'

In the summers of 1858 and 1859 the Thames stank so badly as to rise 'to the height of an historic event.' Even ancient fable failed to furnish figures adequate to convey a conception of its

thrice-Augean foulness. For many weeks the atmosphere of Parliamentary committee-rooms was only rendered barely tolerable by the suspension before every window of blinds saturated with chloride of lime, and by the lavish use of this and other disinfectants. More than once, in spite of similar precautions, the law courts were suddenly broken up by an insupportable invasion of the noxious vapour. The river steamers lost their accustomed traffic, and travellers pressed for time often made a circuit of many miles rather than cross one of the city bridges.

Among people living in such conditions epidemic-diseases, particularly typhus, relapsing and enteric fevers, were frequently prevalent, and the mortality in industrial towns was very high. In 1840-1842 Hull, Leicester, Liverpool, Manchester and Bristol all had rates of mortality over thirty per thousand of the population, and thirty other great towns had rates over twenty-five per thousand. In 1841 of 73,500 deaths registered in those towns fifteen thousand were notified as being caused by fever and epidemic disease. From 1831 to 1833 Asiatic cholera was occurring in various parts of the United Kingdom, and the popular fears which it excited were such as had not been known since the days of the Great Plague. It began in Sunderland, but soon spread to London and to Scotland, and became widely diffused. From such 'voluntary, partial and evidently defective' returns as could be obtained it appears that certain places in England with an aggregate population of five and a quarter millions suffered 31,376 deaths from the disease.

One question which must be answered is whether

the nation would have been better or worse, happier or unhappier, if the Industrial Revolution had never taken place. One thing is certain at the outset. If human life is a boon, there would now have been 20 million or 30 million Britons less to have shared in that boon, if industrialism had not come into being under the capitalist system. Is there any reason to suppose that the standard of life of the smaller number would have equalled that now attained by the greater? It is safe to say that it would not. So far as we can judge, the standard of life under Elizabeth, save for the introduction of certain new articles of consumption from abroad, was as high as, or higher than, that reached by the masses of the people in the early days of George III. Eliminate from the succeeding 150 years the application of steam and electricity under the spur of private enterprise, the development of the Empire, the organisation and expansion of credit, the growth of foreign trade, all of which are the direct products of capitalism, and it is hard to see how any considerable change in the standard of 1770 or thereabouts could have occurred.

To attempt to compare the receipts of a working-class family in money before the Industrial Revolution and at the present time would be wholly misleading. One must try to estimate the change in terms of conditions of life, goods and services available then and now.

Housing conditions in some of the big towns, and even in the country villages, are still bad enough, judged by modern ideals; but the worst are superior to the damp, dark, overcrowded and typhus-ridden hovels of a century or so ago, before the modern

capitalistic system had grown up. In the towns at least, thanks to the authority conferred on municipal bodies by Parliament, there is a public drainage system and water supply, with cisterns and taps ; there is gas both for lighting and cooking ; and the streets are properly cleansed, lighted and policed.

Furthermore, whether we approve or disapprove of the system, subsidies are now being provided out of public funds for the building of working-class dwellings greatly superior in convenience and amenities to anything available even 20 years ago. The funds required are drawn from the reserves of wealth built up by capitalism.<sup>1</sup>

The diet of the working people in the middle of the eighteenth century, even though they lived on the produce of land cultivated by themselves, was poor and monotonous. Frugal housewives made the crust of their pies of barley-meal, with a veneer of flour on the top. Wheaten bread was an uncommon luxury ; meat was fairly plentiful, but, as there was little winter keep, animals were killed off in the autumn and their flesh salted for winter use. Few vegetables were grown. Even potatoes, though introduced in the reign of Elizabeth, were not included in the common dietary. Tea was still a luxury hardly procurable. Fish, of course, except the fish of the ponds and rivers, was unobtainable, even in rich men's houses, in inland districts.

One hardly needs to contrast the deadly monotony

<sup>1</sup> 'About 220,000 houses have been erected, including those under the Housing (Additional Powers) Act 1919, and the annual cost to the State will exceed £8,000,000 for about 60 years.' (Sir Charles Ruthen, Director General of Housing, Ministry of Health). 'The Wheatley Housing Act is intended to finance a long-date programme at a cost of £1,366,239,000, to be provided out of the public funds in a period of 56 years' (Sir Kingsley Wood).

of such a diet with the variety which is at the command of the community to-day. The products of the whole world are poured into our markets. The march of service and invention, aided by capitalist enterprise, has placed at our disposal the wheat surpluses of the whole globe. Fresh meat from the other side of the Equator ; fruits and vegetables from the summers of the South, to be enjoyed while winter is with us ; fresh fish from the White Sea and the banks of Newfoundland ; dairy products from Denmark and Holland, Canada and New Zealand ; eggs from Siberia ; game from Manchuria—the catalogue is endless.

It was only in the year 1814 that Joseph Lancaster founded the British and Foreign Schools Society, and three years later that Dr. Bell established 'The National Society for the Education of the Poor in the Principles of the Established Church.' Before then the masses of the people had been dependent on the old Grammar Schools in the towns, the Blue-coat Schools, founded by the Society for the Promotion of Christian Knowledge (1699), a few endowed village schools and Sunday schools. In 1833 the Government—the capitalistic Government elected on a very restricted franchise—made the first grant of £20,000 for popular education, and established a Committee of Council on Education. Now schools are universal, secondary as well as primary ; Universities or University Colleges have been established in many of our great industrial towns by the public spirit of the manufacturers and merchants ; we spend £100,000,000 a year on public education ; and facilities are at the disposal of boys and girls up to

the age of eighteen. A ladder stretches from the elementary school to the University, and the capitalistic system created it.

Education, however, is a means to an end, the end being a happy and fruitful life; and education, properly speaking, is never ended while life lasts. The mind requires to be continually refreshed, the character to be continually strengthened and built up. It would be profitless to learn to read if no books were available; it would be useless to train the ear and eye to love good music and good pictures if there were not concerts and picture galleries where these things could be enjoyed, or musical instruments and prints which we may possess. Such things invention, coupled with the use of capital, has placed within the reach of the masses.

But perhaps the most striking change of all is in the facility of travel. In 1780 men rarely journeyed farther than the nearest market town, on foot or on horseback. If they sought new employment in the growing manufactures of the North, they tramped through miry roads, with, if they were lucky, an occasional lift in a market waggon. When stage coaches came into being shortly after this time, physicians gravely warned their patients against them, lest the excessive speed should bring on apoplexy.

To-day railway trains, motor charabancs and bicycles are all at the service of the public, either for business or pleasure. A continental holiday is within the reach of many a workman, with its infinite possibilities to the opening of his mind to new ideas. We all of us command, not only goods, but services undreamed of by our great-grandfathers.

Some, however, may say, "We will grant that life is fuller and happier than it was in the middle of the eighteenth century or even the beginning of the nineteenth century, but this is due to the natural and inevitable progress of ideas and invention. The advance has been made in spite of capitalism rather than by means of it." This suggestion is worth thinking over carefully. Let us take the construction of a great railway-line. In order to construct it at all Parliamentary powers have to be sought to obtain the land ; surveyors and engineers have to be employed to take the levels, to plan the embankments, the bridges and the tunnels ; coal, iron ore and limestone are needed to provide the raw material for the permanent way and rolling stock ; the iron has to be smelted, forged and rolled ; an army of navvies is required to make the embankments, bridges and tunnels and to lay the lines ; stations, goods sheds and signal boxes must be built and rolling stock provided. Each of these processes requires costly machinery and buildings. At each stage, from the mining of the raw material to the staffing of the station and the trains, a great number of workmen have to be employed. These cannot wait for their reward until the railway carries passengers and goods, but must be paid week by week. But until the railway carries passengers and goods it earns nothing.

So 'money' has to be found in advance, out of which all these necessary payments can be made. Where does this 'money' come from ? It can only come from the savings of all sorts and conditions of men of all classes, put aside to provide

against sickness and old age, and clubbed together in the hope that it may earn an income for its possessors through the working of the railway.

Let us reduce the subscription of capital for an undertaking such as the construction of a railway to a simple form. A doctor, let us say, applies for £1,000 worth of shares. In effect he says, "Here is food I have not eaten, clothes I have not bought, pleasures I have foregone for ten years past. Take it and let your navvies or other workers in mine or factory or workshop eat the food, buy and wear the clothes, and enjoy such amusements as it will afford them in exchange for their labour. When your line earns payment for the services it renders to the public, send me year by year my share of the surplus remaining after expenses, including wages as a first charge, have been met. Thus I and my children after me shall eat the labour of my hands." And the workmen in their turn, if they do not consume all they earn, will have food, raiment and other things to lend for the use of other workers in return for their labour.

It is sometimes alleged that the use of 'money' lies at the root of all the evils of which the workers complain. But 'money' or some token equivalent to money which will be portable and easily divisible, is essential if the small savings of individuals are to be collected for co-operative use, and are again to be distributed among the thousand and one different trades and callings which must take a hand if big undertakings like the construction of railways are to be carried out.

At this point some Socialists may be tempted to say, "We all know that capital is necessary for

industry, but what we object to is that capital should be in private hands, and used for private profit. These great undertakings should be carried out by the State for the public advantage." The simple answer is that the State possesses no capital —no State ever has any capital but only debts, and could only obtain it by borrowing the savings of individuals or by taxing everyone who did not immediately consume all he earned. Mr. Ramsay MacDonald recognises this fact, and admits that in order to establish a Socialist State by a gradual process it would be necessary for the State now to annex surpluses over a fixed amount, a process which would probably end in the confiscation of the savings of the humblest classes in the community, for it is impossible to strike at the thrift of one class without injuring all classes.

The difference between modern capitalism and that which brought about the Industrial Revolution is that the establishment of the joint stock or limited liability company has enabled the small savings of a large number of people—including many of the working class—to be brought together and used for production, while previously the individual owner had laboriously to accumulate his own capital, or borrow from his immediate friends, and add machine to machine. The modern company, on starting, can pay its workers the full Trade Union rate of wages, and, as in the newly developed coal-fields, can build them comfortable homes, and provide recreation-grounds, club-houses and other amenities, while formerly the operatives had to accept starvation wages and live in miserable conditions, because the employer had no resources but

his own savings. There may have been a loss in the destruction of the personal relationship which achieved so much in the case of men like Robert Owen, Titus Salt, the Ashtons, the Crossleys and others (though many men of this type still remain in control of industry) ; but the average well-being is undoubtedly much, very much, higher than it was between 1780 and 1850.<sup>1</sup>

Moreover, it must be remembered that the State and the Municipality *do* appropriate a not inconsiderable portion of the surplus for public purposes under the capitalistic system. Children go to schools built and maintained at the public expense, instead of working in mines and factories. At school they are fed if they are the offspring of necessitous parents, and their health is carefully supervised. The obligation to compensate workmen for accidents incurred in the course of their employment and for industrial diseases is thrown upon the employers ; insurance against sickness and unemployment is provided by contributions from the State and the employers, as well as from the workers themselves. Old-age pensions are paid out of the National Exchequer. In the mining industry there is a statutory levy for welfare, life-saving and research purposes. Public libraries, public baths and wash-houses, public parks and recreation

<sup>1</sup> According to Mr. Philip Snowden, 'between 1850 and 1900 the rate of wages as shown by Board of Trade index numbers rose by 78 per cent., and in the same period the prices of commodities fell by 11 per cent.' (*Socialism and Syndicalism*). In his opinion, these figures cannot, however, be taken at their face value. 'The increase of wages was by no means spread uniformly over the whole wage-earning class, nor does a fall in the average of wholesale prices necessarily mean a corresponding reduction in the cost of living to the working classes.' But nevertheless the average wage rose by 78 per cent.

grounds—all such things as these have sprung from the reserves amounting to hundreds of millions of pounds, provided by the capitalist system, and could not have been provided from any other source. Much the same might be said of benefits now available for the population, which are provided by voluntary means. Such are the science and art institutes frequently attached to great industrial undertakings, and especially the hospitals which now exist in every town of any size, maintained entirely by public subscription (in which the workers bear their share), where the very best medical and surgical skill and the most highly trained nursing is at the service of the poorest, without money and without price.

The effect of all these things is seen in the vital statistics. Infant mortality under this *régime* of capitalism has been reduced more than 50 per cent.; the expectation of life at birth has been increased by 10 years in the case of men and 11 years for women. According to Sir George Newman, Chief Medical Officer of the Board of Education, the average height of boys of 8 years of age has increased by half an inch, and the average weight by no less than 3½ lbs., even in the last 20 years. No one who witnessed the beginning of the Industrial Revolution, when the half-starved peasants struggled northwards and the increasing pressure of population overwhelmed all authority and organisation, would credit the improvement in the conditions of human life which a period of a little more than a hundred years has brought.

But that is not all. There is yet another side which must be touched upon. So fast did British

capital grow under the spur of private enterprise that, despite the ever-increasing demand at home, hundreds of millions were found for the development of countries overseas, whether under the British flag or not. At the beginning of the period the United States of America were only populated by white men from the Alleghanies to the Atlantic. The great wheat-growing plains and ranching prairies were left to the Indian and the bison. The same was true of Canada, Australia and New Zealand, which as yet hardly knew the white man ; South Africa had but a handful of Dutch colonists round Table Bay. Spanish America and the Brazils were yet colonies of Spain and Portugal, and suffering still from Spanish and Portuguese colonial methods. The looms of Lancashire had not yet begun to clothe the Indian ryots.

From the 'fifties of the last century onward came the call for capital from all over the world, and capital could nowhere be obtained but from the thrifty people of Britain. The capital borrowed by the pioneers of development in the United States and elsewhere did not go out to them in the shape of money, but as rails, locomotives, machinery, clothes, boots and a host of other manufactured articles, the work of British hands. As interest or dividend came back the produce of cotton-fields, and the wheat from the newly-sown virgin corn-fields of the West. British ships carried the cargoes to and fro ; British banks and brokers supplied the credits and discounted the bills needful to the financing of the gigantic business ; and the earnings of ships and bankers were again paid in cheap food and raw material. The more capital was lent, the

more was required, for the new opportunities drew the most enterprising from every country in Europe to the new lands. The United States filled up with people, and these people began to manufacture in their turn. But no sooner did this happen than the Argentine, the Brazils, Chile, Peru and all the other countries of South America began to seek capital to equip themselves with railways and machinery. The white Dominions of the Crown and India joined in the demand. So the fertilising stream of British capital has flowed over the world, directed by the skill and enterprise of the British trader. He has taken his reward as he deserved to take it, for he took his risks, too, losing many millions sterling ; but his skill and enterprise have conduced to the prosperity of the millions who relied upon him for their support and livelihood.

This subject is one that demands hard thinking on the part of the stay-at-home Briton. The United States, from being a debtor nation, has become a creditor nation ; from being a producer of food and raw materials it has become a great manufacturing rival, and will within a reasonable time consume its own surpluses of food, raw cotton and so forth. The same tendencies are evident in other well populated and organised countries. The subject cannot be treated in detail here ; but the conclusion is that unless new lands and new sources of supply are developed, the industrial masses of Great Britain within a generation stand in danger of losing the cheap food and raw material on which they have flourished. The countries which need development are those under our own flag. The

area of Canada is considerably greater than that of the United States ; yet she has only 9 million inhabitants, while the latter country has 120 million. Australia is as big as all Europe without Russia, but Australia has 5 million inhabitants only, as against 200 million in Europe. New Zealand, larger than Great Britain, has only just over 1 million inhabitants, as against 44 million. Of South Africa it is less easy to speak, for the presence of a preponderating number of natives complicates the matter, but obviously there is room for many more than the 1 million or so of white people who now inhabit the 'great spaces washed with sun.' To develop these countries, to bring their food-growing areas into the public use, capital is needed as well as emigrants. From what source is the capital to be obtained ?

There can be but one answer for anyone who will think out the problem—it can only come from the private capitalist, the individual who practises thrift. Each Dominion is rigidly and properly jealous of the complete right of self-government. If all the capital available were in the hands of the Government of the Mother Country—in itself an absurd supposition, since States spend, but never save—no Dominion would put itself under the power of that Government by borrowing or permitting its citizens to borrow from it. Still less would any foreign Government lay itself under such obligation. To do so would be to transfer all questions relating to the debt from the juridical field to the field of diplomacy. The development of fresh sources of supply, more particularly the development of the Empire, which we have shown

to be vital if our millions of workers are to be maintained, and their standard of living at any rate upheld, depends, therefore, in the future, as it depended in the past, on the maintenance of the private ownership of capital and the encouragement of the enterprise of its owners.

These capitalists are not a small class, but are to be found in all classes. Through Trade Unions, the friendly societies, the National Savings Certificates, the Post Office and Industrial Savings Banks, the building societies and other agencies, as well as through joint stock companies, the weekly wage-earners of this country have become capitalists ; they have saved many hundreds of millions of pounds sterling, and all the money is involved inextricably in the future maintenance of the capitalistic system. The extent to which thrift is practised by those who earn modest incomes is suggested by the payment into the Post Office Savings Bank in England and Wales in 1922 of £81,000,000, the total deposits amounting to £274,000,000 at the end of the year, while the Trustee Savings Bank held no less than £79,000,000. The assets of the great building societies have attained an aggregate of upwards of £120,000,000, and in 1923 about £30,000,000 was advanced by them to enable members to buy the houses in which they live. We might quote also the vast sums possessed by the Trade Unions, and the capital which has been accumulated by the old-established friendly societies.

The amount which remained invested in National Savings at the end of 1924 was £366,000,000. If all these savings were pooled, a fund of upwards

of £1,000,000,000 would be created, and even then no account would have been taken of the private investments of the working classes, as they are called, in gilt-edged securities as well as in railways, shipping and various joint stock companies. To what extent any overlapping occurs in these calculations, it is impossible to estimate, but in any event the aggregate sum of the savings of the small investor bears testimony to a high level of national prosperity.<sup>1</sup>

If the nation as a whole can take pride in the triumph of capitalism, working men and women in receipt of modest incomes can share in that satisfaction; for by their thrift they have had no small share in providing the sinews of industrial development, thus assisting in promoting employment. All that they possess as well as the security of their work and their homes, rests in the maintenance of our present social and economic order, which is also the guarantee of their liberties, as the most recent history of Russia under a Socialistic system attests beyond peradventure.

Our fortunes as a nation are inevitably committed to the continuance of our existing economic system. We are dependent, in a larger measure than any other country, on oversea supplies of food, on which to live, and raw materials, on which to work, and we never succeed in exporting sufficient British produce—‘visible exports’ to meet the bill. The account year by year is balanced by ‘invisible exports’—the earnings of our shipping, our banks, and our insurance institutions and the dividends on our foreign investments—all these earnings coming

<sup>1</sup> Cf. Appendix II.

to us, not in money, but in goods. In 1924 the apparent adverse trade balance—the excess of our imports over our 'visible exports'—was £341,000,000 but the Board of Trade estimated that our 'invisible exports' made up this deficiency with a margin on the right side of £29,000,000, which was available for investment overseas.<sup>1</sup> Under any scheme of State Socialism these 'invisible exports,' for reasons which have been set forth in preceding chapters, would inevitably shrink and finally disappear. How then could we pay for our food and raw materials? That is the riddle which Socialists must be required to answer specifically before this island country, with its vast population of 44 million people, can agree to nationalise the means of production, distribution and exchange, including its ships, its banks and its insurance offices. Any such policy must bring us face to face with starvation, for under State Socialism the stream of these 'invisible exports' would unquestionably dry up, and year by year our national trading accounts would show a deficit of many millions sterling, with disastrous effects on our credit. In no long time, this would be a bankrupt State, and bankruptcy would mean an end to all our greatness as the conspicuous liberalising influence in the world.

<sup>1</sup> Cf. Appendix II.

# APPENDIX I

## *Working-Class Savings*

### REGISTERED PROVIDENT SOCIETIES, GREAT BRITAIN GENERAL SUMMARY, 1921<sup>1</sup>

#### Societies registered under the Friendly Societies Act :—

Orders and their Branches	..	..	£	( <sup>1</sup> )35,524,564
Sickness Benefit Societies	..	..		15,544,871
Deposit Societies	..	..		9,463,537
Death and Burial Societies	..	..		3,172,227
Widows' and Orphans' Societies	..	..		1,004,379
Dividing Societies	..	..		465,929
Juvenile Societies	..	..		247,320
Friendly Society Asylums & Convalescent Homes	..	..		53,391
Shop Clubs	..	..		647
Medical Societies	..	..		112,084
Shipwreck Societies	..	..		9,161
Miscellaneous Friendly Societies	..	..		4,676,967
( <sup>1</sup> )Total Friendly Societies	..	..		34,750,513
Collecting Societies	..	..		20,065,928
Cattle Insurance Societies	..	..		11,396
Benevolent Societies	..	..		430,250
Working Men's Clubs	..	..		1,647,015
Specially Authorised Societies :—				
Loan Societies	..	..		677,999
Agricultural Credit Societies	..	..		2,017
Miscellaneous	..	..		1,390,438
Coal Clubs	..	..		221
<b>Total Friendly Societies Act</b>	..	..	£	<b>94,500,341</b>

## APPENDIX I

Industrial & Provident Societies :—		£
Agricultural Societies .. ..	1,804,057	
Distributive Trading Societies .. ..	95,140,297	
Productive Societies .. ..	2,112,226	
Businesses .. .. ..	3,620,735	
Land and Housing Societies ..	2,033,239	
General Co-operative Development Societies .. .. ..	214,056	
Total .. .. .. ..	( <sup>4</sup> ) 104,924,610	
Building Societies .. .. .. ..	( <sup>5</sup> ) 76,193,271	
Trade Unions .. .. .. ..	10,950,118	
Workmen's Compensation Schemes ..	101,497	
Certified Loan Societies .. ..	183,401	
Railway Savings Banks .. ..	11,070,411	
Total reported upon by the Chief Registrar of Friendly Societies .. ..	297,923,649	
Post Office Savings Bank (approximate)	274,000,000	
Trustee Savings Bank (approximate)	79,000,000	
National Savings (approximate) ..	366,000,000	
		£1,016,923,649

<sup>1</sup> Reports of the Chief Registrar of Friendly Societies for the year 1922.

<sup>2</sup> Branch totals will not be prepared for 1921.

<sup>3</sup> Voluntary insurance only.

<sup>4</sup> Deposits £22,000,000 not included.

<sup>5</sup> Deposits £17,000,000 not included.

## APPENDIX II

### *The Balance of Trade in 1924.<sup>1</sup>*

#### BALANCES OF INCOME AND EXPENDITURE IN THE TRANSACTIONS BETWEEN THE UNITED KINGDOM AND ALL OTHER COUNTRIES.

	1907	1910	1913	1920	1922	1923	1924
In million £'s.							
Excess of Imports of Merchandise and Bul- lion .. .. ..	142	159	158	343	171	203	341
Net National Shipping Income <sup>2</sup> .. ..	85	90	94	340	110	115	130
Net Income from Over- seas Investments	160	187	210	200	175	150	185
Commissions ..	25	25	25	40	30	30	40
Other Services ..	10	10	10	15	10	10	15
Total 'Invisible Ex- ports' on balance ..	280	312	339	595	325	305	370
Income available for Investment Overseas	138	153	181	252	154	102	29
New Overseas Issues on London Market in year <sup>3</sup> .. ..	91	207	198	60	135	136	134

<sup>1</sup> *The Board of Trade Journal*, January 29, 1925.

<sup>2</sup> Including bunker coal and oil and stores supplied to foreign ships.

<sup>3</sup> For 1913 and subsequent years the figures are taken from the table in the *Monthly Review* of the Midland Bank. For 1907 and 1910 they are taken from the *Economist*.

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